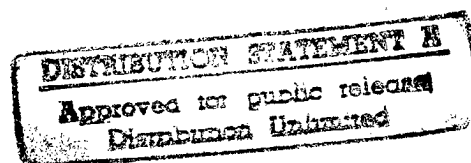


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NATIONAL AFFAIRS, POLICY

Shoudu Steel Urges More Enterprise Autonomy

HK2706080492 Beijing JINGJI GUANLI
in Chinese No 3, 5 Mar 92 pp 35-38

[Article by Shoudu Iron and Steel Company, edited by Shen Zhiyu (3088 1807 3342): "Shoudu Iron and Steel Company's Experience in Carrying Out Transnational Operations"]

[Text] I. Course of Development of Shoudu Iron and Steel Company's Transnational Operations

As one of China's first batch of experimental units for restructuring the economy, Shoudu Iron and Steel Company took the lead in carrying out the contract responsibility system among industrial enterprises. Reform has provided an opportunity for the broad masses of workers and staff to bring into play their initiative in building socialism and for enterprises to fully develop their vitality. The total amount of profits and taxes from Shoudu Iron and Steel Company in 1990 was 2.995 billion yuan, which ranks first among China's 500 large enterprises. After 12 years of reform and development, it has become a specially large enterprise group covering 15 trades and spanning over 22 provinces and municipalities (autonomous regions). It owns nine large iron and steel, mining, electronics, machinery, construction, and shipping companies, 98 plants and factories, 44 jointly run businesses, 14 joint ventures within China, and seven overseas enterprises and business offices with 180,000 workers and staff in total.

There are three major features in the transnational operations of Shoudu Iron and Steel Company:

First, from mainly importing technological equipment to rapid growth in exporting products and technological equipment.

The Foreign Economic Relations Division of Shoudu Iron and Steel Company was first set up in the fourth quarter of 1979. The Shoudu Iron and Steel Branch of the China National Metallurgical Import and Export Corporation was set up at the end of 1981 with approval from the state. The setting up of such a corporation enabled Shoudu Iron and Steel Company to enjoy partial autonomy in foreign trade i.e. to engage in exporting its products and importing equipment, spare parts, and technology it needed. Since the corporation was founded, its business has expanded continuously with the deepening of the cause of reform and has changed from importing to exporting in recent years. In the past 12 years, it imported successively over 600 items of technological equipment from abroad, with a total investment of \$310 million, including imports of second-hand equipment and new equipment and technology.

Because of the strength of the contract system and because imports have heightened its technological level

and expanded its production scale, the international operations of Shoudu Iron and Steel Company gradually shifted to exports in 1988. Its foreign exchange earnings from exports amounted to \$20.74 million in 1988, \$56.15 million in 1989, \$64.43 million in 1990, and \$210 million in 1991.

Second, from exporting general steel products to technology and complete sets of equipment and being contracted to undertake large metallurgical projects overseas.

In the early period after Shoudu Iron and Steel Company was given partial import and export power, its major exports included 15 kinds of semi-finished products, such as raw iron, steel products, steel ingots, cast iron pieces, and cast iron tubes. Great changes have taken place in its export product mix with technological progress and the implementation of a diversification strategy. Now the scope of export business has been expanded to nearly 50 kinds of major products, such as steel products, chemicals, inert gases, building materials, metal products, machinery and electrical products, civilian products, agricultural machinery, ships, and complete sets of metallurgical machinery equipment. Of these export products, the proportion of steel products has continuously declined since 1985. In 1990, the proportion of steel products for export was 55 percent, and the proportion of diversified products such as machinery, electrical products, and chemical products increased to 45 percent, of which machinery and electrical products accounted for about 12 percent. Now the products of the Shoudu Iron and Steel Company have found markets in over 20 countries and regions around the world, mainly in Asia and especially in South East Asian countries.

After 12 years of technological transformation, much of its major equipment has reached world advanced levels. Some practical metallurgical technology and automation technology has been exported and transferred to foreign countries, such as no-bell furnace top, top combustion hot blast stove, jet blown coal powder, and other patented projects are exported to the United States, Japan, the United Kingdom, Luxembourg and other developed countries. In addition, it also provides technology, training, design, consultancy, and other services for many iron and steel enterprises abroad.

As the added value of exporting primary products is low and is subject to the impact of international price fluctuations, Shoudu Iron and Steel Company regards exporting machinery and electrical products as a strategic principle for long-term development. Apart from exporting ships, diesel engines, agricultural machinery, bicycles, sports apparatus, metallic tools, electronics technology, and other machinery and electrical products, it is also contracted to export complete sets of metallurgical machinery equipment by bringing into play its overall superiority in design, manufacturing, assembly, technological training, and fine-quality after sales service. A 10-ton rod product rolling machine, 1,871 tons in

weight, was designed and manufactured for the Masda Steel Manufacturing Company of Indonesia. The contract was signed in November 1990 and took just over nine months to complete; the equipment was safely shipped to Indonesia in September last year. The total foreign exchange earnings from the project amounted to \$5.24 million. Following this project, it was contracted to manufacture and assemble welding tube units and complete blast furnace sets for Egypt, Syria, India, and other countries, and provided technological services with total foreign exchange earnings of over \$6 million.

Contracting for an international project is quite a complicated procedure. It can bring the export of capital, technology, labor, complete equipment sets, and raw and processed materials, and is also conducive to the technological progress of enterprises and raising the quality of products. Since 1989, Shoudu Iron and Steel Company has contracted for the reconstruction and building of new iron and steel plants for several countries. At present, it has signed contracts for the modernization of steel plants in Peru and Iran, with total contract amounts of \$9.25 million and \$13.80 million respectively.

Third, from the introduction of foreign capitals to investing overseas and engaging in transnational operations.

Since reform, it has successively set up 14 joint ventures inside China by making use of foreign capital. The total amount of investment agreed upon between foreign businessmen and Shoudu Iron and Steel Company has reached \$320 million, and the successful projects are:

In 1985, the Aisiji Shipping Company Ltd. was jointly set up by Shoudu Iron and Steel company and Hengdar Shipping Company (H.K. [Hong Kong]) Ltd. The fleet has now increased from three to seven 10,000-ton ocean liners and total capacity has increased from 50,000 tons to over 100,000 tons. By the end of 1990, accumulated profits realized were \$3.01 million, with an average compound increase of 32.3 percent annually. The foreign exchange earnings of the fleet amount to \$150,000 per capita for 1990, the highest among the joint ventures in Beijing Municipality.

In 1987, Shoudu Iron and Steel Company and the East Asiatic Company Ltd. of Denmark with jointly invested in building the Dongzhimen International Apartments. Since opening for business in 1989, the overall occupancy rate of the villas, apartments, and offices has always stayed over 85 percent. The profits realized rank top among non-productive joint ventures in Beijing Municipality.

In 1990, Shoudu Iron and Steel Company signed a contract with NEC [Nippon Electric Company] for the production of large scale integrated circuits and core blades, with an agreed investment of \$200 million agreed. On that basis the Shoudu Steel and Nippon Electric Electronics Company Ltd was founded. In 1991, Shoudu Iron and Steel Company and businessmen from

Japan and Singapore respectively set up joint ventures for repairing tires, electronics, and electrical appliances.

Besides, it has also successively set up seven joint ventures and business offices overseas, with total investments of over \$8 million and has a stock-holding of \$3.4 million in the (Maxta) Engineering and Design Company of the United States. Such direct investment enabled China's iron and steel industry to acquire for the first time from abroad advanced technology and continuous casting design technology. It was in a position to make use of that company's 850 blueprints and microfilms, 46 software packages, 41 items of patented technology, and two registered trade marks. In recent years, the (Maxta) Company has played a positive role in designing and undertaking overseas projects for Shoudu Iron and Steel Company, and is at present engaged in jointly designing the 2060 continuous hot rolling machine and a 5.5-meter sheet rolling machine, which will fill up some of China's gaps.

At present, of the seven joint ventures overseas, four are productive enterprises and three are trading companies. The main purpose for investments and developments abroad are to acquire advanced technology from abroad for use at home; collect technological information on international markets and vigorously increasing exports; and bring about the export of complete equipment sets and machinery and electrical products by investing in plant and technology.

II. Experiences and Strategic Concept of Shoudu Iron and Steel Company's Transnational Operations

From the end of 1981 up until now, from import and export trade to transnational operations, there are many experiences that are worth summarizing for Shoudu Iron and Steel Company to develop from a domestically oriented iron and steel enterprise to a large international enterprise group with a comprehensive development capacity.

First, the contract system has laid a strong material base for its transnational operations. From 1979 to 1990, the annual compound increase in total profits and taxes realized by the Shoudu Iron and Steel Company was 19.1 percent, output of steel products increased 2.24 times, and profits realized increased 6.1 times. In the early period of reform, annual profits retained were less than 30 million yuan, but in 1990 profits kept amounted to 1.1 billion yuan. When an enterprise is strong in financial resources, it is capable of continuously stepping up inputs of technology and equipment, expanding production scale, and even moving toward international markets for investment and development. In 1991, the state abolished export subsidies. As Shoudu Iron and Steel Company products have comprehensive strength and as it has the support of its financial resources, its overall production costs in foreign exchange have decreased to some extent and it has won superiority in fierce competition.

Second, to rely on scientific and technological progress, introduce new technology and new techniques, and develop export products of high added value are the key factors for Shoudu Iron and Steel Company to gain superiority in international competition. From 1979 to 1990, total inputs of funds for technological transformation and construction amounted to 4.28 billion yuan, and it has completed 108 crucial technological transformation projects. Now its major equipment is controlled by computers and automation of production technology has reached advanced world levels. In 1991, the proportion of new techniques and new technology introduced for export products increased, of which machinery and electrical products of high added value accounted for over 20 percent, eight percent higher than the previous year.

Third, the major prerequisites for Shoudu Iron and Steel Company to develop its international trade are that production enterprises can make their own decisions in foreign trade operations and can provide systematic technological services after direct contacts have been built between producer and seller. As China's export product mix has changed mainly from primary products to manufactured products, the technological content of export products has become ever greater. In particular, when the technological performance of the machinery, electrical products, and complete equipment sets exported are complicated, it would be very difficult to do business if export manufacturers were unable to build direct contacts with users. In June 1991, Shoudu Iron and Steel Company signed a contract with an Indian company for a complete blast furnace equipment set with a total contract amount of \$3.336 million. During discussions on the project, the Indian side suddenly raised a point about changing the equipment from the blowing anthracite powder that had already been decided upon to blowing bituminous coal powder and asked that equipment for making and conveying the powder be delivered separately. Negotiations would have been suspended if these difficult technological questions could not have been answered immediately. After hearing the news, the International Trade Division of Shoudu Iron and Steel Company immediately organized technicians from the design institution, steel research institute, ironworks, power plant and other units to study the technological plan that very night, finally meeting with the client's requirements resulting in a contract. If a middle link had acted as agent for the project, Shoudu Iron and Steel Company might have lost the chance of this business.

Fourth, the strategy of opening up international markets and engaging in transnational operations has raised the consciousness of workers and staff for international production and operations and has promoted an overall improvement in production technology, technological levels, product quality, and supply and marketing services. Since implementation of the transnational operations strategy, the initiative of the broad masses of the people have been brought into full play and everyone

makes suggestions and efforts to open up international markets. "Be masters under Heaven, and create the world's first" has become the motto of the people at Shoudu Steel. In the face of an international buyer's market, only when quality, variety, specifications, technological performance, and even packaging of export products are up to world standards can they win out in international competition. Since June 1991, when Shoudu Iron and Steel Company acquired a BS [British Standard] Standard certificate from the United Kingdom for its exports of guide tracks for elevators, there has been a marked increase in orders placed and selling prices have subsequently risen by 4.6 percent. To ensure the packaging quality of its wire rod exports, Shoudu Steel's No. 2 Wire Rod Plant has tackled over 10 key technological problems with its packaging machine and foreign businessmen are most satisfied with the packaging. Now 75 percent of the products of Shoudu Iron and Steel Company are up to international standards.

Today, about two-thirds of overseas markets are monopolized by overseas transnational companies. If she does not organize her own transnational enterprise groups to participate in the international division of labor and exchanges, China will be in an inferior position in international economic and technological competition. To promote the international operations of China's industrial enterprise groups is a strategic necessity for consolidating China's socialist system and raising her comprehensive international competitive power. The strategic goal of Shoudu Iron and Steel Company is to become a large, first-rate international enterprise group, which will eloquently prove that socialist enterprises can create labor productivity higher than that of capitalist enterprises and that they can gain superiority in international economic and technological competition. To realize such an overall objective, Shoudu Iron and Steel Company has fixed several concrete strategic goals for transnational operations.

1. The goal of foreign exchange earnings. This ensures getting \$200 million of foreign exchange earnings in 1991 up to \$300 million in 1992, \$500 million in 1993, and \$1 billion by 1995. The volume of export trade in percentage terms will increase from 4.5 percent in 1990 to one-third of total sales volume to the amount of \$5 billion by 2000, and sales volume at home and abroad will be on a fifty-fifty basis.

2. Overseas investment strategy. To invest overseas with equipment and technology as capital and strive to build another ten or so productive overseas enterprises by the end of 1993. It is necessary to combine engaging in industries overseas with setting up trading offices, to support trading by production, and promote production by trading. Thus continuous rolling development overseas will enable enterprises of Shoudu Iron and Steel Company to spread over all five continents and allow it to move toward being a "company without boundaries."

3. High-tech development strategy. To raise the international competitive power of its products, it is necessary for Shoudu Iron and Steel Company to possess the world's most advanced technology. At present, it has started carrying out a strategy of combining production with scientific research and 72 scientific research institutes have been set up in various large companies. These research institutes are closely integrated with production and are engaged in development and research for prospective new products and new technology.

4. Exports escalation strategy. Of steel products exported, gradually reduce the percentage of semifinished or primary products and increase the percentage of finished manufactured iron and steel products and for export products under diversified operations, such as chemical products and machinery and electrical products, gradually increase the percentage of machinery and electrical products and complete metallurgical machinery equipment sets which are highly technological and high in added value.

5. Global and regional development strategy. In developing markets in developed countries in Europe and the United States and markets in developing countries in Asia, Africa, and Latin America, the emphasis is being laid on markets in developing countries in Asia, Africa, and Latin America; on developing markets in Asia, Africa, and Latin America, the emphasis is laid on markets in Asia; in developing Asian markets, the emphasis is laid on Southeast Asian countries and then countries in south Asia and west Asia.

III. Difficulties of Shoudu Iron and Steel Company in Transnational Operations and Suggestions on How To Cope With Them

As the system at home is not coordinated, the decision-making power of Shoudu Iron and Steel Company in its operations overseas has been restricted by many factors and policies in the system since it carried out its strategy of transnational operations. Many difficulties and problems remain to be overcome. The following are concrete suggestions:

First, widen the scope for experimental enterprise groups to expand their powers in foreign trade. Shoudu Iron and Steel Company is one enterprise group that has transnational operations. However, it is excluded from the list for an expansion of powers because it is not "listed in plans and controlled by departments." We believe that there should be many patterns for enterprise groups. The "national team" "listed in plans and controlled by departments" is one pattern; Shoudu Steel, Seiger, and other "field armies" that make their own decisions in operations are of another pattern. More important is that our thoughts should be based on purpose and content and not on form and concept. So long as they conform with the state's industrial policies and have the strength and capability to engage in transnational operations, these enterprise groups should be endowed by the state

with corresponding decisionmaking powers for foreign economic relations and trade.

Second, improve the export permit system. At present, there is enormous overstocking of steel products and many enterprises are looking for sales in international markets. However, China's control of permits is both rigid and confused. It is rigid because enterprises cannot readjust the amount and scope of issuance according to changes in demand at home and abroad, and confused because there are too many levels of control and issuance is reckless. It is very difficult for some iron and steel enterprises to get permits, yet some organizations which have nothing to do with the production and operation of steel products possess export permits for steel products. This makes permits securities and helps the growth of unhealthy trends. The foreign exchange earnings of Shoudu Iron and Steel Company should be \$300 million for 1992, rising to \$500 million in 1995, yet the amount of export permits allotted to it each year is limited. This makes it extremely difficult for it to carry out an export-expansion strategy.

Third, industrial enterprise groups should be allowed to set up trading enterprises overseas. At present, China divides its overseas enterprises into trading and nontrading, which is rarely seen in the world. It is precisely shown how China extends her industry-trading separation system overseas: productive enterprises can only set up production enterprises overseas and are not granted approval to set up trading enterprises. It is not in conformity with the development trends of industry-trading integration. If Toyota Motor had not set up a network of over 6,000 sales offices in over 140 countries and regions in the world, "where there are roads, there are Toyota cars" would be an empty phrase. To engage in transnational operations, requires a group of people working overseas on a long-term basis. However, Shoudu Iron and Steel Company has only a dozen or so permanent staff overseas, and cannot set up permanent agencies and business offices in West European countries, Japan, and Australia where there is intensive commercial and technological information. Such an industry-trading separation system should be changed as soon as possible and transnational production should be organically linked with transnational operations.

Fourth, large international enterprise groups should be given the power to directly send people abroad. In international business competition where every second counts, it is unimaginable to spend two to three months completing formalities to send people abroad to sign contracts, submit tenders, and provide after-sales service. To purchase second-hand equipment, it is necessary to check it right on the spot and you decide immediately if you are sure you will take it. But if your people cannot even go abroad, what transnational operations are there to talk about? The power to examine and approve people going abroad should be appropriately decentralized. Enterprise groups can be given a general plan once a year about the number of people going abroad, and within that number, large enterprise groups

can examine, approve, and send people abroad and undertake corresponding responsibilities.

Fifth, enterprise groups should be provided with necessary financial support in transnational operations. As China now lacks export credits and the banking system lacks the necessary guarantees for overseas projects, enterprises are in a most unfavorable position in international competition. In the course of its overseas development, Shoudu Iron and Steel Company appeared to be in the most difficult of financial problems. In July 1987, in the competition for a \$14 million transformation of a Brazilian steel plant, as Shoudu Iron and Steel Company could not acquire a bank guarantee or did not have its own financial institution and therefore did not have the capacity for a self-guarantee, the project could not but fail. Shoudu Iron and Steel Company thought of setting up a financial company long ago but has never won approval. It is very difficult for an enterprise to engage in international operations without financial support. It is hoped that the setting up of a special purpose investment or financial company within the scope of its business to raise funds for international business and projects will be approved by the relevant government departments.

Sixth, restrictions on foreign exchange quotas for import projects and overseas investment projects should be slackened. At present, imported projects or overseas investment projects over \$1 million must be submitted to state planning department for approval, and it is always discussed and approved project by project which both wastes time and holds things up. Shoudu Iron and Steel Company hopes to have larger foreign exchange quotas for imported projects and overseas investment projects as the projects it imports or invests in are usually over several million or over \$10 million.

Article Views Ownership Structure Problems

HK1206133092 Beijing JINGJI YANJIU in Chinese
No 2, 20 Feb 92 pp 3-15

[Article by Guo Zhenying (6753 2182 5391), Lu Jian (4151 1696), Song Ning (1345 1337), and Zhang Tai (1728 3141) of the State Council's Research Office, edited by Zhan Xiaohong (6124 1420 3163): "On Several Problems Regarding Ownership Structure in Our Country"]

[Text] I. Current Ownership Policies Accord With the Country's Conditions

Since the establishment of the PRC, our country's ownership structure has undergone several readjustments, and in these readjustments the major changes were brought about by the socialist transformation of private ownership of the means of production, and by reform and opening up.

In the early period after the establishment of the PRC, through the confiscation of foreign capital and bureaucrat capital, and 3 years of construction to recover, by 1952 the national gross value of industrial output had

grown to 34.9 billion yuan from the 1949 figure of 14 billion yuan. Of this, state-run industry contributed 14.497 billion yuan or 41.5 percent of the total, collective industry contributed 1.138 billion yuan, or 3.3 percent, individual handicraft industry contributed 7.779 billion yuan or 20.6 percent, and private industry contributed 12.086 billion yuan or 34.6 percent of the total. The ratio of the gross industrial output value of the publicly-owned economy as compared to the nonpublicly owned economy was 45:55. At that time, however, as seen from the number of enterprises and entrepreneurs, private industry and the individual handicraft industry still occupied absolute superiority. In terms of the output value of the major industrial sectors, state industry had superiority. Further, its proportion in gross industrial output value was gradually increasing and it thus began to play a quite major role in the national economy.

During the First Five-Year Plan, the state placed large investment into industry and also engaged in socialist transformation of private ownership of the means of production. Historic basic changes thereby occurred in our country's ownership structure and the power of the publicly owned economy and especially of the state-run economy saw major strengthening. In 1957, national industrial gross output value grew to 70.4 billion yuan. Of this figure, the proportion contributed by state- and collectively owned industry grew respectively to 53.8 percent and 19.0 percent; while urban and rural individual operations and other economic forms (mainly public-private joint operations and private operations) contributed 0.8 percent and 26.4 percent respectively. In the volume of domestic retail sales of commodities, the proportions contributed by state industry, collective industry, public-private joint operations and private operations rose from their 1952 respective figures of 16.3 percent, 18.2 percent, 0.4 percent and 60.9 percent to the 1957 figures of 37.2 percent, 41.3 percent, 16.0 percent, and 2.7 percent. Construction under the First Five-Year Plan and socialist transformation laid down our country's socialist public ownership base, forming a national economic structure in which in every major sector the publicly-owned economy was the major element. In the industrial sector, it was also the state economy that was the major element, and the state economy had large- and medium-size enterprises as its main part. The large and medium-size enterprises were centered in major industries of importance to the national economy and the people's livelihood. At the same time, other economic components also played a major supplementary role. This quite rational ownership structure promoted the development of the productive forces.

However, there continued to exist in our country obvious policy errors and mistakes regarding the socialist transformation of the privately owned means of production. The major mistakes included an insufficient understanding of the positive role of urban and rural individual endeavors and the private-operations

economy, there was an attitude of impatience toward the requirements set down for agricultural cooperativization and toward carrying out a transformation of individual handicraft industry and privately run commerce, the work was done haphazardly, the forms adopted were insufficiently diverse, and the changes were too swift. Particularly in the period of the "instituting of people's communes" and the "Great Leap Forward," which began in the middle of the 1950's, and because of the influence of "leftist" guiding ideology, we sought for the communes a "large and collective" nature, divorced from national conditions, and there were efforts to "make a complete transition," to "raise the ownership system," and to "cut off the tail of capitalism," which were all divorced from the actual level of the productive forces. In addition, the nonpublic ownership economy, including individual operators and private operators, was almost completely eliminated and the collective economy was managed in accordance with the practice of "integrating government administration with commune management." This resulted in our country's ownership structure moving toward a unitary situation and brought negative effects to many aspects of the national economy.

After the Third Plenary Session of the 11th CPC Central Committee, on the basis of summing up historical experiences and proceeding from the basic national conditions of being in the primary stage of socialism, our country made a positive and safe readjustment of policies regarding the various economic components, and gradually formed an ownership structure in which public ownership constituted the main part and in which other economic components saw appropriate development

1. Comparing in terms of industrial production. From 1980 to 1990, gross industrial output value of the public ownership economy rose from 512.896 billion yuan to 2,158.648 billion yuan, while the output value of other economic components grew from 2.53 billion yuan to 233.786 billion yuan. Comparing the proportions that the publicly owned economy and other economic components constituted in the overall economy, we see that from the respective figures of 99.5 percent and 0.5 percent in 1980, the figures changed to 96.9 percent and 3.1 percent in 1985, and then to 90.2 percent and 9.8 percent in 1990, the publicly owned economy still maintained overwhelming predominance, but at the same time, the proportion of other economic components obviously rose.

2. Comparison in terms of the circulation sphere. If we look at the proportion that the publicly owned sphere and other economic components constituted in terms of volume of domestic retail sales of commodities (not including retail sales by peasants to residents not engaged in agriculture), the figures in 1980 were 99.2 percent and 0.8 percent respectively. By 1990, these figures were 78.6 percent and 21.4 percent respectively. This shows that there has been a great increase in the proportion constituted by other economic components. Of this, the proportion constituted by the individual

economy rose from 0.7 percent in 1980 to 20.9 percent in 1990, breaking down the situation in which state and cooperative commerce were the sole operators, and thereby enlivening circulation. The supply and sales of major strategic goods and materials of importance to the national economy and the people's livelihood as well as the wholesaling of the major means of production and means of livelihood were still controlled or solely managed by the publicly owned economy, and the public ownership economy still maintained a leading position in the circulation sphere.

3. Comparison in terms of industrial funds (assets). In 1989, the original value of industrial fixed assets throughout the country was 1,310.180 billion yuan and the percentages of this constituted by the public ownership economy and by other economic components were respectively 97.8 percent and 2.2 percent. In the public-ownership economy, the assets of whole-people enterprises constituted 77.6 percent of the total and those of collective enterprises constituted 20.2 percent. The year-end surplus of floating funds was 954.731 billion yuan, divided between the public-ownership economy and other economic components in the proportion of 94.5 percent and 5.5 percent respectively. A further breakdown shows that whole-people operations held 62 percent, collective operations 32.5 percent, individual operators 1.7 percent and others 3.8 percent. Of the 1,459.003 billion yuan that constituted the total funds of all industry, whole-people enterprises constituted 70.7 percent, collective operations constituted 25.5 percent, individual operators constituted 1.1 percent and other operators constituted 2.7 percent. As compared with 1980, there was a major increase in the strength of all economic components, but the proportion constituted in industry by the nonpublic ownership economy remained small.

By further analyzing the above-noted situations, we can see the structure, trends, and basic characteristics of the development of the various economic components in our country at the present stage.

First, the strength of the whole-people ownership economy, that is the state-owned economy, has been greatly increased. Compared to 1980, the original value of fixed assets, the gross industrial output value and total retail sales of commodities in 1990 had increased by 187.93 percent, 110.19 percent and 198.53 percent respectively. At the same time, because of the continual rise in the proportions of other economic components, there was a decline in the proportion that the state-owned economy constituted. Its proportion in gross industrial output value declined by 21.4 percentage points, but it retained an predominance in the various major industrial sectors.

Second, the collective economy saw continued consolidation and development. In this, the development of township, small town and village collective industry was particularly swift and the percentage these constituted in gross industrial output value saw a continual rise. In

1990, the gross industrial output value of the collective-ownership economy totalled 852.273 billion yuan. This represented an increase of 453.97 percent over 1980. It also constituted 35.6 percent of the gross industrial output value of all industry, a rise of 12.1 percentage points. The number of persons engaged as staff and workers in urban collective units grew to 34.59 million, a growth of 46.4 percent, and they constituted 25.54 percent of the entire body of staff and workers engaged in the urban public-ownership economy, a rise of 2.3 percentage points. In Jiangsu, Zhejiang, Shandong, Guangdong, and Hebei, the proportion constituted by the gross industrial output value of the collective economy has exceeded or at least approached that of the state-owned economy, and thus it is playing an increasingly important role in the national economy.

Third, the individual economy has seen speedy development in both the urban and rural areas. At the end of 1990, there was a total of 13.283 million individual commercial operators in the urban and rural areas throughout the country, involving 20.928 million persons or an average of about 1.5 per operator. They had funds of 39.74 billion yuan or an average of 2,992 yuan per operator. Their total gross annual industrial output value was 129.03 billion yuan, constituting 5.39 percent of national gross industrial output value. Their commodity retail sales totalled 156.96 billion yuan, constituting 18.9 percent of total national commodity retail sales. These figures all represented increases over the 1980 figures.

Seen from the trend of development, the individual economy, from a very low starting point, saw quite swift development during the period of the Sixth Five-Year Plan. During the Seventh Five-Year Plan, there was still development, but the speed saw a reduction. During the Sixth Five-Year Plan, the overall number of individual industrial and commercial operators saw an average annual growth of 59.1 percent, the number of personnel engaged in such operations grew annually by 66.9 percent and the business turnover grew annually by 188.1 percent. During the Seventh Five-Year Plan, the growth figures were respectively 2.3 percent, 3.2 percent, and 13.0 percent.

Fourth, in the process of development of the individual economy, there did appear some private operations which operated with employees. However, the proportion of such operations was very small and over the last two years, the momentum of development has seen a tapering off. Privately run enterprises began registering their businesses in 1988 and by the end of 1990, there were 98,000 registrations. The number of personnel engaged in these businesses totalled 17.02 million persons, or an average of 17.4 persons per business. Registered capital was 9.52 billion yuan, or an average of 97,000 yuan per business. Seen from their economic forms, the private enterprises were mainly divided as follows: Sole proprietorships numbered 53,000 or 54.6 percent of the total; partnerships numbered 40,000 or 1.2 percent of the total [figures as published]; and limited

liability companies numbered 4,000 or 4.1 percent of the total. In terms of urban-rural distribution, rural private enterprises and the number of personnel engaged in the enterprises represented 61.6 percent and 66.6 percent of the total figures.

Regardless of whether we look overall or compare by industry the proportion constituted by the private operators economy at present is still not very large, and the role they play in the national economy is very limited. However, differences of scale are very marked. According to a survey of 30 provinces, municipalities, and autonomous regions conducted by the State Bureau of Industry and Commerce, in 1990 there were 492 private enterprises which had assets in excess of 1 million yuan. Of these, the largest was the Minsheng Plastic and Rubber Corporation in Shantou, Guangdong, which had a registered capital of 6 million yuan, an output value of 18 million yuan and export earnings of \$3 million. In addition, it is worthy of note that, as many private enterprises are registered under the name of "collective ownership," the proportion of private operations is actually higher than the statistical data reflect.

Fifth, Chinese-foreign jointly funded and cooperative ventures as well as solely foreign-owned operations saw speedy development. By the end of June 1991, the number of enterprises involving foreign investment throughout the country totalled 30,025. Of these, 18,034 were Chinese-foreign jointly funded enterprises, 7,673 were Chinese-foreign cooperative enterprises and 4,318 were enterprises solely funded by foreign capital. The registered capital of enterprises involving foreign investment reached 159.64 billion yuan, of which the foreign businesses had undertaken to provide about 50 percent. In 1990, the gross industrial output value of enterprises involving foreign funds was 44.895 billion yuan, which constituted 1.88 percent of gross national industrial output value. Since the beginning of reform and opening up, every year there has been great development of enterprises involving foreign investment. The structure has also seen positive changes and the proportion of production-oriented, export-oriented, and high-technology enterprises has seen a gradual increase. This has played an important role in promoting the import of funds and technology and in promoting the development of the export-oriented economy. However, seen overall, the average scale of enterprises involving foreign investment is not large and the proportion they constitute in gross output value is still very small.

Sixth, there has appeared the shareholding system economy, cooperative economy and joint-operations economy, where diverse economic components are mixed together. At the end of 1990, there were 596,600 industrial enterprises involving various types of cooperative operations in the urban and rural areas throughout the country. They had 8.233 billion yuan of their own funds, the number of their staff and workers totalled 5.2964 million, gross output value was 53.9 billion yuan and they handed up 1.767 billion yuan in taxes. As proportions of national totals, the number of enterprises

was 7.5 percent, their funds totalled 0.52 percent, staff and workers comprised 0.55 percent, output value was 2.3 percent and taxes paid were 0.96 percent.

Practice is the sole criterion of truth. Our country's prosperity and social stability and overall increases of comprehensive national strengths since the beginning of reform and opening up, show that the changes in our country's ownership structure are positive changes which accord with the situation of the productive forces at the current stage and the basic situation of our country. These changes have played an obvious role in promoting the development of our country's social productive forces and planned commodity economy, in bringing prosperity to urban markets, in expanding employment avenues, in bringing convenience to the people's lives, in changing the situation of poverty in backward regions, in raising the level of the people's lives, in increasing financial income and in bringing stability to society and the economy. This proves that the principle and policy of the party center of "upholding public ownership as the main element while allowing and encouraging the appropriate development of other economic components" is completely correct and we should unwaveringly maintain the continuity and stability of this policy.

II. Analysis of Problems Which Have Appeared in Our Advance

At the same time as fully affirming the positive role of the changes which have occurred in our country's ownership structure, we cannot ignore the various problems which exist or have been revealed in the development of the various economic components. Some of these require a great degree of attention.

1. Over the last few years, the state-owned economy has lacked vigor, performance has declined, there has been a rapid decline in the proportion state operations constitute in the national economy and they have lacked growth reserves. During the Seventh Five-Year Plan, the assets of state-run industrial enterprises within the budget (the original value of the fixed assets of the enterprise and its floating funds) seems, from the accounts, to have grown very swiftly. By the end of 1990, they had reached 1,091.56 billion yuan, an increase of 784.33 billion yuan over the figure in 1985, or an average annual increase of 12.9 percent. However, when we analyze these figures specifically, the situation does not allow optimism. In 1990, the profit and tax rate on funds in state enterprises was 10.3 percent, 8.4 percentage points below the figure of 18.7 percent seen in 1985. The profit rate on funds was 3.3 percent, a decline of 7.7 percent from the 1985 figure. Of this, the profit and tax rate on funds in enterprises engaged in industrial production was 12.9 percent, while the profit rate on funds was only 2.7 percent. These figures were 13.5 percent and 11.2 percent down respectively on the 1985 figures. This affected the competitive position of the state-owned economy in the industrial production sphere and brought about changes in the proportion of the sphere it

occupied. In 1990, the national gross industrial output value was 2,392.4 billion yuan, an increase of 7.76 percent over the previous year. The speed of growth was not slow, but seen from the structural component angle, state-run industry only grew 2.96 percent (of this, the state-run industry within the budget only grew by 1.5 percent), collective industry grew 9.02 percent (in this, township and small town industry grew 12.5 percent), individual operations and privately run industry grew 21.11 percent and the three types of enterprises which are partly or wholly foreign-funded grew 39.33 percent. It should be said that the differences in speed of growth is a major reason for the excessively swift decline in the proportion which whole-people ownership industry constituted in overall industrial gross output value. The proportion which whole-people ownership industry constituted in total industrial gross output value has fallen from 76.0 percent in 1980, to 64.9 percent in 1985 and to 54.6 percent in 1990. Over these 10 years there has thus been a decline of 21.4 percentage points.

It should be recognized that following the change in industrial investment subjects from a unitary publicly owned economy to diverse economic components, and the implementation of diverse channels and diverse forms of investment, there has inevitably been a corresponding decline in the proportion which the state-owned operations constitute in overall industry. This is normal. However, in another respect, something to which we must give full attention is that over the last few years, the excessively swift decline in the proportion which the state-owned economy contributes to industrial production has not mainly been the result of a decline in the proportion of its investment. In the 10 years from 1981 to 1990, the amount of investment in the fixed assets of whole-people ownership industry rose from 38.043 billion yuan to 180.988 billion yuan, an average annual increase of 18.92 percent. Meanwhile, the investment in fixed assets of urban and rural collective ownership industry rose from 4.997 billion yuan to 31.367 billion yuan, an average annual growth of 22.64 percent. Of this, fixed assets investment in urban collective industry increased from 2.545 billion yuan to 12.269 billion yuan, an average annual increase of 19.1 percent, while fixed assets investment in rural collective industry rose from 2.542 billion yuan to 19.098 billion yuan, and average annual increase of 25.62 percent. The difference between the annual growth in fixed assets investment between urban and rural industry was 3.72 percentage points. However, over the same period, the gross output value of whole-people ownership industry grew by 8.3 percent annually, while the gross output value of collectively owned industry grew by an average annual 19.8 percent. The difference between these two figures was 11.5 percentage points. This shows that the excessively swift drop in the proportion of the state-owned economy in terms of gross industrial output value was mainly due to a decline in assets performance. If powerful measures are not adopted to reverse this trend, there is a danger that the strength of the state-owned economy might be crippled.

Apart from the problems brought by the decline in assets performance, another aspect that should be given great attention is the problem whereby because of a weakening of management over state assets, at present there exist to differing degrees in quite a number of state-run enterprises the phenomenon of assets loss, a deterioration of the financial structure and an increase in the debt ratio. Some enterprises have already reached the stage where assets do not meet liabilities and they have become "empty shells."

The reasons for this are: 1) Operations are poor and there are great losses incurred. 2) Hidden losses. That is, expenditure is not fully distributed and not fully entered into costs. Thus, even when losses are registered, there is excess distribution of false profit increases. According to a survey of 10,580 state industrial enterprises conducted by the Industrial and Commercial Bank of China, by June 1990 hidden losses had occurred in 6,625 enterprises or 63 percent of the total. This was 1.96 times the number who had losses registered on their books. The hidden deficits and losses totalled 10.83 billion yuan, equivalent to 1.72 times the losses registered on the books. 3) Management is chaotic and the accounts do not reflect the actual situation. 4) There is arbitrary handling of assets and private distribution of the income so derived. According to an investigation conducted by the Liaoning Provincial Assets Management Bureau of seven enterprises in Gaixian County which had been "shut down," the original value and the net value of the fixed assets were respectively 40 percent and 41 percent lower than prior to the shutting down. Some assets were even being used by individual operators. 5) Concealed assets, the earnings from which are privately divided. If we do not take firm measures to basically resolve these problems and we allow them to develop, the state-owned economy will be in danger of being hollowed out internally.

2. In the process by which state units are running collective enterprises, there exists some phenomena whereby the rights and interests of state assets are being harmed. According to a survey conducted by the Shandong Provincial Assets Management Bureau, of the collective enterprises run by 760 whole-people units in 12 prefectures and cities, 54 percent of the collective enterprises were using state assets worth 60.67 million yuan, without paying any compensation. Some state enterprises transferred their profitable products to the collective enterprises, resulting in the profits of the state enterprises being lost.

3. At present in the collective economy, there exist many operations which are claimed to be collective but which are actually private. This is very disadvantageous to consolidating the collective economy, to guaranteeing financial and tax income, to strengthening industrial and commercial management and to guiding the development of the individual and private-operation economy. According to a survey by the State Bureau of Industry and Commerce, a great number of private-operation enterprises exist and develop by registering as collective

enterprises under the names of "joint-operator enterprises" "cooperative enterprises," "shareholding enterprises" and "people-run enterprises." Some have even obtained the encouragement and support of local governments. According to incomplete statistics for Sichuan Province, in 1990, there were 16 times as many private enterprises being run as "false collective" enterprises as there were in 1989. Guangdong Province has noted that of the close to 2,000 private enterprises throughout the province engaged in processing and assembly operations, about 60 percent are registered using the name of collective enterprise.

The reasons for the private enterprises becoming "false collective" enterprises include: 1) With the "collective" name, they can enjoy reduced taxes, can easily obtain credit and enjoy low-interest preferential treatment. The supply of some raw materials is guaranteed and it is easy for them to expand their sites and they enjoy other preferential policies which the state extends in support of the collective economy. Thereby, they gain real benefits. 2) They can break through the limitations which the state imposes on the private economy and expand their range of operations. 3) Through using the name of collective enterprise, they seek political guarantees and seek to raise their credit rating. This facilitates the signing of contracts and the use of bills, and assists in the sale of products. 4) Township and small-town governments and collective enterprises through accepting "linkage" with private enterprises can obtain a certain amount of management fees and can train some people. They can also increase the output value and volume of collective operations and these are manifested as achievements. 5) Some local governments have inappropriately stressed the guiding of private enterprises towards the collective economy.

4. There exist some abnormal factors in the excessively swift development of the nonpublic ownership economy. At present, seen overall, the proportion which the various nonpublic ownership economic elements constitute in our national economy is not great, and the proportion which their output value and funds constitute in the total is under 10 percent. However, the speed of development of the nonpublic ownership economy is very fast. The reasons for this include the superiority of their operational mechanisms and operational modes, as well as their benefits in terms of competitive conditions. At the same time, it must also be recognized that for long time, the proportion of the nonpublic ownership economy in our country has been very low, and it has had a small base, and as the development of the nonpublic ownership economy has mainly been in tertiary industry and processing industry, the existing market gap was very large and competition was not very intense. This provided the individual and private economy with quite a great scope for its activities and space for their development. Thus, after the readjustment of policy, they were able, with more flexible operational modes than the publicly owned economy and particularly more so than was the state-owned economy, to fill the market gaps.

They even squeezed out some of the publicly owned operations in the market. As, in the early stage of development, competition was not very strong, individual and private economy operations were, within a short time, able to obtain quite high profits. This then spurred them to greater accumulation and swifter development. It should also be said that these were normal factors which for a short time meant that the nonpublic ownership economy was able to develop more swiftly than the publicly-owned economy. This was also in accord with the policy orientation adopted by our country.

However, we must not ignore the fact that apart from these normal factors, there were also some obviously abnormal factors. The major of these were:

First, tax avoidance and tax evasion. This was a major reason the nonpublic ownership economy was able to obtain huge profits and saw speedy accumulation. Our country has adopted a 10-grade graduated tax rate for individual economy operations, a 35 percent tax rate for private enterprises, and a 33 percent income tax for the three types of enterprises which are partly or wholly foreign-owned. In nominal terms, the overall tax burden is not light. However, according to an investigation by tax departments, over 90 percent of individual and private economy operations have evaded or avoided tax, and the actual tax paid is about one-half of the nominal tax. Over 60 percent of these enterprises are the three types of enterprises which are partly or wholly foreign-owned in Shenzhen, which have through various measures, transferred hidden profits in order to avoid tax.

Second, illegal production or dealing in commodities which the state limits or prohibits the production of or dealing in. Many individual operators and private enterprises have greatly exceeded the production and operational activities stipulated by the state. Seen from the circulation sphere, many industrial and commercial operations not only sell commodities they are not allowed to deal in, but engage in wholesaling of major means of production on a scale in excess of the allowed scale of operations. In some areas they even monopolize part of the market.

Third, operating without licenses or permits.

Fourth, weak management and incomplete policies. Because the management of the individual and private economy operations involves the departments concerned with industry and commerce, labor, taxation, pricing, health, metrology, environmental protection, quality supervision, transport, urban construction, banking, public security and judicial administration, policies are made by many departments, which means that there is both overlapping and loopholes. As a result, there is a lack of coordination and management is chaotic. Our country already has some basic policies in respect of the individual and private economy, but they are far from complete: 1) There is a lack of clear policy demarcations as to what is prohibited, what is restricted,

what is allowed and what is encouraged. 2) There is a lack of clear policies as to sanctions and a lack of necessary sanction measures by which to deal with illegal operations. 3) There is a lack of macroeconomic guidance and policy guidance to direct the healthy development of the individual and private economy operations. Thus, this has given rise to weak economic management of the individual and private operations economy in actual economic life, and there is ineffective guidance and subsequently blind development.

Fifth, some local governments have arbitrarily expanded preferential policies. The governments of many localities and especially those in some coastal regions, in order to attract foreign funds and increase their own achievements, have without authority expanded preferential policies beyond the scope set down by state policies. They thus hope to attract foreign business participation. These actions harm the gravity of state policies and give foreign business the impression that our country's policies are not stable. At the same time, because the policies in respect of the three types of partly or wholly foreign-owned enterprises are too generous, many state-owned and collective units have actively sought foreign-capital "partners," and "false foreign devils" have proliferated. Thus, there has been a rapid increase in the number of registrations of foreign-funded enterprises. However, the number of these actually using foreign funds is not great. Also, because the policies are too generous, and supervision is not tight, quite a number of enterprises invested with foreign funds, when nearing the end of their tax concession period, either engage in "zero profits" and thereby obtain new tax concessions, or pull out their funds and register again to again obtain tax concessions. In addition, some enterprises, when engaging in Chinese-foreign joint-fund operations, do not properly appraise many of the assets of the Chinese side and they contribute them at book value, while land is not given a value or only a nominal value. This in fact transfers state rights and interests to the foreign-funds party without compensation.

Sixth, improper competition. This includes kickbacks, false accounting in order to avoid tax, adulteration, giving short measure, skimping on labor and materials, sending presents, offering bribes, speculation, and so on. These so-called "flexible" abnormal competitive measures result in poor quality production and operations and low-grade products. The individual industrial and commercial operators and private entrepreneurs which produce or operate in this way are thus able to exist in the market and they use these measures to make up for their technological and quantitative deficiencies. These measures also allow them to enjoy more "preferential" conditions in obtaining raw materials than are enjoyed by state and collective operations. Thus, they occupy the commodity sales market and see speedy growth. This has had extremely negative effects on the maintenance of normal economic order and on the improvement of economic quality.

5. The instability and lack of transparency of policies affects the healthy development of the nonpublic ownership economy. Allowing and encouraging the appropriate development of the nonpublic ownership economy is a long-term policy determined by the level of the social productive forces at the present stage. However, it should be recognized that there still exists different views in terms of understanding the nature and roles of the individual economy and the private-operation economy, and on the propaganda level there still exist some biases which inappropriately stress their negative aspects. Thus, individual and private operators are widely concerned about changes in policy, and they do not make long-term plans. Some local party and government leaders also have concerns about the question of "orientation" and they inappropriately restrict or "guide" individual and private operations to make the transition to "collective" operations. This is one of the reasons for the flood of all sorts of "false collective" operations and is also a reason for the widespread short-term activities of individual and private economy operations. Many individual industrial and commercial operators and private entrepreneurs have a speculative mentality where they "make money where they can" and where "if they can make enough money they will not have to worry about changes in policy." If there is an opportunity they make use of it and if they have money they put it into a bank rather than engage in long-term investments. Whenever there is any sign of disturbance, they apply to close their businesses. The fluctuations which have occurred in registrations of individual operations and private enterprises in recent years cannot be said to be unrelated to this mentality. In another respect, the policies which relate to individual operations and private enterprises are insufficiently transparent. There are, in different periods and different areas, quite marked differences as to what is allowed and what is encouraged. This is very disadvantageous to guiding the individual and private operations economy toward legitimate operations and in encouraging them to bring into play their positive role to assist the national economy and the people's livelihood.

III. Degree of Competitiveness of Various Economic Components Lies in Their Mechanisms

In the development of the nonpublic ownership economy at the present stage, a situation has been formed whereby it coexists and competes with the state-owned economy. In this competition, on the one hand, seen from the resources, technology and human resources, supply of raw materials and energy, product quality and market share, the publicly owned economy has an obvious advantage. On the other hand, in terms of various other conditions of competition and especially enterprise operational mechanism, the state-owned economy has some obvious disadvantageous elements and this affects the bringing into play of the superiorities of the state-owned economy.

1. Of the disadvantageous elements of the competitive conditions of the state-owned economy, the major is that

the actual debt burden of the large and medium state enterprises is heavier than those of other economic components.

1) A comparison of the tax burden. The major differentials in tax burden are in income tax. The nominal income tax rates set down in the regulations are 55 percent for large- and medium-sized enterprises, 35 percent for private enterprises and 33 percent for enterprises funded partly or wholly by foreign funds. For small-scale state enterprises and collective enterprises there is an eight-level progressive tax rate, while for individual industrial and commercial operators there is a 10-level progressive tax rate in which the highest rate is 84 percent. If we exclude the individual economy, the tax rate of the large and medium-size enterprises is clearly higher than that of other types of enterprises. For various reasons, there is quite a great differential between nominal tax rates and actual tax rates. According to data provided by the State Bureau of Taxation, in 1990, the average actual income tax rate was 38.28 percent for large and medium industrial production enterprises, 31.39 percent for urban collective enterprises, 24.86 percent for rural enterprises and under 20 percent for individual commercial and industrial operators and private enterprises. The tax burden of large- and medium-size enterprises was clearly higher than that of other types of enterprises. In addition, the current policies stipulate that in respect of enterprises invested with foreign funds and township and small town collective enterprises, from the year these enterprises start making profits, the income tax will be subject to "two exemptions and three reductions." Thus, in the early development of the foreign-invested enterprises and township and small town collective enterprises, the actual tax burden is greatly reduced.

2) A comparison of the nontax fixed financial amounts to be handed up. State enterprises have to hand up differing proportions of their post-tax profits, and they also have to hand up, from their own funds, energy and transportation construction funds and budget regulation funds, while other types of enterprises are exempted from these payments or hand up only small amounts.

3) A comparison of the nonfinancial fixed amounts to be handed up. This burden is borne by all types of enterprises, but some items are only levied on state enterprises and they are not allowed to enter these in their costs. Township and small town enterprises, private enterprises and foreign-invested enterprises are not subject to these levies or they can at least enter them in their costs. Thus, the burden on state enterprises is quite heavy and these burdens are seeing a trend of increase.

4) A comparison of the nonfinancial, nonfixed levies. The great diversity of social fund collections or levies such as residential accessories charges, greening charges, security charges, purchase of public transport equipment charges, societies and associations charges, administrative and institutional unit levies, news and publishing

unit levies, and culture, arts and sports assistance payments all have state enterprises as their targets. According to a survey of 15 Shanghai enterprises by the Ministry of Finance, in 1989, there were 14 types of such charges and in that years the enterprises handed over 10.737 million yuan, nearly 20 times the figure of 518,000 yuan paid in 1985.

5) A comparison of interest and credit repayment burdens. State enterprises enjoy preferential interest rates and can repay credit before paying tax. This is something which individual, private and foreign-funded enterprises do not enjoy. However, as the form of provision of capital construction funds of state enterprises was changed from allocation to credit, and floating funds were made subject to bank management, enterprises do not have sufficient floating funds. Added to this are the effects of inflation and the several increases in interest rates instituted by banks between 1984 and 1989. This has resulted in a great increase in the interest burden borne by state enterprises. According to statistics of the Industrial and Commercial Bank of China, from 1984 to 1989, the interest expenditure of industrial production enterprises within the budget rose by 80.788 billion yuan. Of this, 38.05 percent was attributable to increases in interest rates, while 61.95 percent was due to an increase outstanding credit. In addition, the current financial system stipulates that some credit interest expenditure, mainly that of specific credit used for fixed asset investment, cannot be entered into costs. Thus, the interest expenditure of state enterprises seen in production costs is not very great. In 1985, it was 1.4 percent and in 1989 it was 3.0 percent. However, it is much higher as a proportion of sales income. According to a survey of Shenyang City by the Ministry of Finance, in 1990, the floating fund credit and capital construction and technical transformation credit of the city's state industrial enterprises within the budget required an annual interest payment of about 1.1 billion yuan, about the same amount as the 1.06 billion yuan which was the total amount of financial revenues handed up in that year. Although the interest burden of the other types of enterprises is also high, as all interest expenditure can be entered into costs and there is a corresponding reduction in the tax base, actually they can transfer some of their interest burden.

6) A comparison of expenditure within enterprises on social goals. This sort of burden is almost exclusively restricted to publicly owned enterprises and especially state enterprises. For a long period, apart from having economic goals, state enterprises also bore a large number of social goals. For example, they provided employment, looked after the medical, housing, school, and child-minding needs of the staff and their dependents, they undertook mandatory plans and they maintained the stability of prices. Private and foreign-funded enterprises and some township and small town enterprises provide high wages, but do not obtain cheap raw materials and their expenditure on social goals is small, the prices of their products are generally set by the

enterprises themselves and they follow the market. They can buy high and sell high. Added to this is the fact that they have few nonproductive personnel and their non-productive expenditure is also low. Thus, this burden is much lighter for such enterprises.

2. The many disadvantageous factors in the competitive conditions of state enterprises are produced by the enterprise management system and the operational mechanism. This is mainly manifested in two aspects:

The first is that the current assets and financial accounting systems of state enterprises are not rational, and they still have not thoroughly thrown off the old model of unified state control of all profits and losses and of all income and expenditure.

1) Enterprises' financial income and expenditure are tightly linked to state financial budgets and the level of retained profits is readjusted in accordance with the financial budget. When there is relaxation on one side there is tightening on the other. If there are big profits, the state takes a large amount, if there are low profits it takes a small amount and if there are no profits it takes nothing and instead provides subsidies or just enters it in the accounts. This produces a mechanism by which the fat are taken from to feed the thin and the fast ox is the one which is whipped. This results in state enterprises, regardless of whether their operations are good or bad, having difficulty in forming necessary self-accumulation, which stunts enterprises' enthusiasm for increasing profits and quite a number of enterprises with potential for profit are worried that if they make more profits, the base figure to be handed up will be raised. Thus, they are unwilling to put efforts into increasing profits. At the same time, this reduces the pressure on loss-making enterprises to turn their operations around. This sort of problem does not exist in other enterprises.

2) The wage-type expenditure for staff and workers cannot be entirely entered into costs. Rather, it must be distributed in accordance with a fixed ratio. If we take Guangdong Province as an example, the total amount of wages of staff and workers of state enterprises within the budget throughout the province in 1990 was 15.4 billion yuan. Of this, 3.572 billion or 23.19 percent of the total wages of staff and workers was not entered into costs. The total amount of welfare benefits was 3.601 billion yuan, of which 2.519 billion yuan or 70 percent of the total was not entered into costs. As this expenditure could not be entered into costs, it meant a false increase in profits, which increased both the tax base and the basic amount which was distributed as individual income. If they paid tax in accordance with the 33 percent tax rate paid by foreign-funded enterprises, they would have paid an additional 2 billion yuan of tax. If tax was paid on the basis of the 55 percent tax rate, they would have paid an additional 3.35 billion yuan in tax. Meanwhile, this expenditure by foreign-funded enterprises, private enterprises and even township and small town enterprises can almost all be reflected in costs. This correspondingly reduces their profits and thus reduces

tax payments. It can thus be seen that the problem of the heavy burden borne by state enterprises is not entirely due to differences in nominal tax rates. Rather, it is the result of the implementation of different financial accounting systems.

3) The interest paid on specific credit obtained for fixed assets in enterprises is not allowed to be entered into costs, and this produces a false increase in profits. At the same time, because the practices of pre-tax repayment of credit and the retention of a certain ratio of consumption funds (bonuses, welfare funds) from retained profits is practiced, it results in some of the falsely increased pre-tax profits being transferred into bank revenue and about 40 percent of falsely increased post-tax profits being transferred into consumption funds. Guangdong provincial statistics show that in 1990, the outstanding balance of specific credit for fixed assets in state enterprises within the budget throughout the province was 10.693 billion yuan. If this is calculated at an annual interest rate of 9 percent, the annual interest expenditure which is not entered into costs is 960 million yuan. Also, when the income tax paid at 55 percent is subject to financial redistribution, another 210 million yuan is transferred to consumption funds. This method means that the interest rate loses its role in restraining enterprise credit use and strengthens the mechanism by which enterprises try to maximize their use of funds. This encourages even enterprises with poor results to vie for credit. They do not fear high interest rates as the greater the interest rate the greater their falsely increased profits and the greater the amount of consumption funds they retain and distribute. This situation is also one not shared by other enterprises which do not practice the state enterprise financial accounting system.

4) The depreciation rate is too low and, at the same time, there are quite a number of enterprises which, in order to complete their contracted base figures, artificially depress costs and do not draw off depreciation funds or draw off less than is due. In addition, the 25 percent "two funds" have to be extracted from depreciation funds. This also results in some of the compensatory capital which should be entered in costs being transferred to profits and financial income, resulting in excessive distribution. Thus, the state, enterprises and staff and workers all eat from the original capital of the state's assets. This means that the situation widely exists where there is insufficient compensation for fixed asset depletion. The majority of state enterprises in our country employ the method of classified depreciation and the average actual amount retained for depreciation is about 5 percent. Thus the average depreciable life of assets is about 20 years. This does not take into consideration the invisible damage brought by technological advance and yet it is still three to eight years longer than normal economic-use life of assets. The depreciation rate in other types of enterprises is about 6.5 percent, meaning an average depreciable life of 15 years. Depreciation funds are compensatory funds for maintaining the simple reproduction of fixed assets. The current financial system sees them as national revenue and levies the

"two funds" on them. Actually, this is levying tax on state assets. This situation does not exist for other enterprises.

The second is that the current management system of state enterprises is not rational and there is too much administrative interference. Enterprises have still not completely freed themselves from the position of being administrative appendages.

Our country is a socialist state and, seen overall, much administrative slanting is towards the publicly owned economy, not towards the nonpublic ownership economy. As noted above, although there are disadvantages in their competitive conditions, these are to a great degree produced by the structure and operational mechanism of the state economy, and are not a result of differentials in external conditions. A major reason the state economy has not seen its due development, apart from the above-mentioned factors, is that state enterprises are subject to too much administrative interference. It should be recognized that, except in the case of foreign-funded enterprises, the vigor and swift development of the nonpublic ownership economy is not mainly due to preferential policies provided by the state. Rather, to a very great degree, it is because of the fact that restrictions on them have been relaxed, so that they have full operational autonomy. Actually, this is also true of the township and small town enterprises. In this respect the state enterprises are greatly lacking.

Since the state enterprises implemented the factory director responsibility system and contracted operation responsibility system, to a certain degree the problem of who assumes responsibility for enterprise operations has been resolved. However, the reform of the state assets and property rights management system has been relatively slow and the social management role of the government and its property rights management role have not been separated. The government administrative departments still consider state enterprises as the main targets of management. If a separation of the duties and responsibilities of the social managers and enterprises cannot be achieved and their functions cannot be changed to strengthen the necessary administrative supervision and management and macroeconomic regulation and control, this will inevitably weaken the state's necessary management and guidance of other economic components. Also, if we cannot realize appropriate separation of the rights of the owners and the enterprises, and cannot concurrently, in accordance with the property rights relationships, bring this into decisionmaking and supervision within state enterprises to form motivational and restraining mechanisms within enterprises, this will inevitably result in the strengthening of government administrative intervention in state enterprises, and will make it difficult to implement operational autonomy in enterprises. It is thus that after the implementation of the contract system, government and enterprise functions were not separated and the two rights were not separated. In fact, as the contract base figures are set by the administrative departments, it has

strengthened direct control by the administrative departments over the state enterprises. This situation on the one hand has resulted in enterprises being unable to free themselves from administrative intervention and administrative protection, truly orient themselves to the market, decide on their own operations, take responsibility for their own profits and losses and compete with other economic components. On the other hand, it has meant that enterprises lack necessary assets restrictions and it is thus difficult to resolve the problem of to whom the factory director or manager is responsible. This produces chaos in the assets management of state enterprises and serious losses. No one takes responsibility for maintaining or increasing the value of assets, and income distribution is slanted towards individuals. Private enterprises, township and small town enterprises and foreign-funded enterprises do not have this problem.

Summing up the above, it should be noted that the basic factor producing the differential in competitiveness between the state-owned economy and other economic components is the mechanisms, and that the current structure restricts the due development of the state-owned economy. As far as the factors affecting the development of the state-owned economy are concerned, the major contradictions lie not in the external environment but in the irrationality of the internal operational mechanisms.

We must soberly recognize that both now and in the future, only if good momentum for improving capital accumulation and improving performance in the state economy can be maintained, will we be able to ensure that it plays the guiding role in the national economy and thereby ensure that the prime position of the publicly owned economy is not shaken. Thus, further deepening reform and through determined and great efforts perfecting the state enterprise operational mechanism is the key to gradually having the development scope and proportions of the various economic components in the national economy move toward rationality. It is also the crux in consolidating and developing the socialist economy. This should be taken as the standpoint for deciding basic state policies in respect of the various economic components, and there should not be rash changes to policy which will inappropriately restrict the development of other economic components.

IV. Exploring Appropriate Proportions of Various Economic Components

Seen from the long-term, upholding the principle and policy of maintaining the publicly owned economy as the main part and appropriately developing other economic components will inevitably touch on the question of determining and adjusting the proportions of the various economic components in the national economy. In this respect, we lack experiences we can use for reference and have no clear stipulations. It should be recognized that in a situation where conditions are not ripe, experiences are not rich and systems and policies are incomplete in various respects, not being over-anxious to set down the

proportions of the various economic components, but instead advocating an attitude of positive exploration, will be beneficial to stabilizing people's hearts and yet will still be quite an active policy. Seen from the present situation and the needs of future development, if we are to have the various economic components in the national economy move towards an appropriate ratio, we need to pay attention to resolving the following several questions.

1. The question of the relationship between scope and proportion. The proportions of the various economic components in the national economy is formed and controlled mainly through the limitations and regulation imposed by their own development scope. This is because between all industries and all products in the national economy there objectively exist certain relationships. These relationships are mutually compensatory and are also proportional. The excessive development of any industry will be subject to the restrictions of market volume. Thus, by clearly setting down the scope of development of the various economic components, the proportion which they occupy will also be limited. Within the fixed scope, the nonpublic ownership economy will not be able to occupy a very large proportion and will not be able to threaten the leading position of the publicly owned economy. Of course, because of the differences in the natural and historical conditions and the level of production development in various places, the development of the nonpublic ownership economy will inevitably produce an imbalance and quite great differences in the ownership structures of various areas. However, from a quite long-term viewpoint and seen from the national angle, as long as the scope is stable, the proportion will tend to be stable. In brief, on the question of scope and proportion, the scope is in the primary position and the scope determines proportion. Thus, clearly stipulating the development scope of the nonpublic ownership economy should be the point of departure in formulating ownership policies at present, and needs to be decided first.

2. The question of the proportion necessary to maintain the prime position of the publicly owned economy. On this question, there exist two ideas. One idea is that as long as the public-ownership economy controls the major industrial sectors, it will be maintaining the prime position and its proportion in the economy can be reduced a little, and it need not even occupy a dominant position. The other idea is that if we are to maintain the prime position of the publicly owned economy, it is necessary to ensure that it occupies a quite large proportion of the economy. The former opinion is not correct. The basic nature of the socialist economic system is determined by the public ownership of the means of production and by distribution according to work. Thus, in upholding the prime position of public ownership, it is necessary to ensure that the assets stock of the publicly owned economy and the GNP and national income which they provide constitute a clear majority in overall social volumes, and that they maintain quite high growth

momentum. Otherwise, the publicly owned economy will not be in the prime position and will not be sustained.

Clear majority is only a comparison in terms of total quantities and does not exclude the nonpublic ownership economy constituting a majority or even an absolute majority in some industries or some regions. In many spheres and industries of the tertiary industry sector, the nonpublic ownership economy has an obvious operational superiority, and the results of competition inevitably mean that the proportion it constitutes in some spheres and industries is becoming increasingly large, and it is gradually catching up to or overtaking the public ownership economy. Experience shows that either restricting its operational superiority in these industries or restricting its development proportion in these industries is disadvantageous to economic development.

3. The problem of the appropriate proportion of the nonpublic ownership economy. The appropriate proportion which the nonpublic ownership economy is to constitute in the national economy is a question which has to be resolved through practice. In studying this proportion, we need to consider the following: 1) A comparison of domestic and foreign political and economic environments and strengths; 2) The degree of completeness of the laws, regulations, and measures for engaging in social management of the nonpublic ownership economy; 3) A comparison of the positive and negative roles of the nonpublic ownership economy. Considering these elements, we observe that at present the industrial output volume and assets of the nonpublic ownership economy in our country as proportions of total industrial output volume and assets stock are not more than 10 percent. We cannot yet say that these proportions are appropriate, or that they have become too large and they have reached a stage where they must be restricted or transformed. Thus, we should continue to allow and encourage the appropriate development of the nonpublic ownership economy. In addition, we should treat the various forms of the nonpublic ownership economy differently. We might consider increasing the proportion of the individual economy a little and reducing the private economy a little. At present, the proportion constituted by foreign-funded enterprises is very small and we should greatly encourage foreign investment.

4. The question of instituting statistical recording and supervision in respect of the development situation of the various economic components. The current statistical system and statistical index system in our country is actually the result of the product economy. Over the last few years, the statistical departments have put great efforts into perfecting this system and have added some indices. However, the system is still unable to concretely and completely reflect the development situations of the various economic components. 1) There is a lack of classified statistics for the various economic components and especially for private enterprises and foreign-funded enterprises. 2) Some major classified indexes such as

assets volume, profit volume, tax volume and wholesale volume are lacking. 3) Classification of industries is done quite roughly. This statistical situation is disadvantageous to gaining an understanding of the situation, and it needs to be gradually improved.

V. Perfecting Policies and Promoting Rational Development of Various Economic Components

1. We must, centered on strengthening large and medium state enterprises, continue to deepen reform in various respects, improve the performance of the state economy, and increase its strength. At present, the most important task is to implement the Enterprise Law which has already been promulgated and the 20 policies for enlivening large- and medium-sized enterprises set down in September last year by the Central Work Conference, and earnestly place the work focus on changing and perfecting the enterprise operational mechanism to have enterprises become commodity producers and operators which decide on their own operations, take responsibility for their own profits and losses, and have self-development and self-restraint capacities.

1) We must implement enterprise operational mechanisms and gradually improve the conditions for competition by state enterprises. The current assets management and financial accounting systems for state enterprises are not suited to the needs of engaging in equal competition with other economic components, or to continually accumulating state-owned capital. They must be reformed as quickly as possible.

During the period of the Eighth Five-Year Plan, we must throughout the whole society, carry out a planned reappraisal of the assets and funds of enterprises, verify the value of state assets used by operational units and reform the accounting and earnings distribution systems of state enterprises. We must use assets liabilities and profit or loss to replace the existing funds balance sheet, set down the basic targets and tasks of enterprise operators in using state assets and implement the practice of assessing enterprise operational results using capital accumulation and capital funds performance as major indicators. We must also clearly differentiate capital expenditure from operational losses and properly resolve the questions of capital compensation and income accounting. On this basis, we can establish an enterprise financial accounting system which is in accord with international practices and promote a change in the enterprise mechanism so that they truly take responsibility for their own profits and losses and engage in self-accumulation.

2) We must gradually separate the government's administrative management function from its function as the owner of state assets and, on this basis, change the function of government administrative departments, strengthen the necessary administrative supervision and guidance of the various economic components in society and maintain normal order in socioeconomic operations. At the same time, we must gradually establish a management system for state assets from the central

level to the localities, to represent the state in exercising the management function in respect of state-owned assets, and guarantee the accumulation and rights and interests of state assets.

3) We must change the practice whereby state financial budgets and state enterprise financial budgets are inextricably bound together, and appropriately speed the reforms whereby taxes are being separated from profits and the double budget system is being implemented. The taxation departments should levy taxes in accordance with law to guarantee the recurrent state budget and regulate and control socioeconomic vigor. The state assets management departments should, in accordance with the funds needs of state construction plans and the specific situations of different enterprises, appropriately levy some of the profits from the operational units which employ state assets, so as to form a profits distribution and funds accumulation mechanism which allows capital accumulation by the state and guarantees enterprise development needs.

4) We must develop interlinked shareholdings and operations of state assets and gradually change the majority of state enterprises in competitive industries into limited liability companies with publicly owned corporations holding the majority of shares, so as to promote a situation where enterprises are responsible for their own operations, are responsible for their own profits and losses and where the superior succeed and the inferior are eliminated.

2. We must unify the tax system so as to make tax burdens fair, and strengthen the management of levying so as to promote equal competition between the various economic components. 1) We must unify the domestic enterprise income tax system, implement proportional tax rates, reduce the income tax levied on state enterprises, abolish repayment of credit before taxation, and abolish regulatory taxes. Also, except for in special zones, the income tax rate for all types of enterprises should be uniform. At the same time, we should merge the individual earnings' regulatory tax and the individual income tax, establish a unified individual income tax system, and institute graduated tax rates. We need to differentiate the roles of enterprise income tax and individual income tax. The enterprise income tax should manifest the principle of equal competition, while the excessively high incomes of individual industrial and commercial operators and private entrepreneurs should be regulated through individual income tax. 2) We must reform the circulation tax [liu zhuan shui 3177 6567 4451] system, and widely implement a value-added tax. For products which need to be controlled and regulated, we could levy product tax. We should gradually unify the domestic and foreign circulation tax systems. 3) We need to strengthen management in the levying of taxes, strengthen the taxation collection teams, ensure that taxes are levied firmly in accordance with laws and regulations, and punish all kinds of tax evasion and tax avoidance.

3. We must further consolidate and develop the township and small town collective economy, and fully bring into play the role of the collective economy in expanding employment opportunities, increasing financial income, promoting the development of production in poor and backward areas and consolidating the regime at the basic levels. 1) We must continue to support the development of the collective economy at and above the village level and provide preferential treatment in the areas of credit and taxation, help the collective economy to resolve all sorts of problems and do as much as possible to help them resolve problems in terms of raw materials and energy to increase the cohesion of the collective economy. 2) More flexible labor employment systems and distribution systems should be implemented in the collective economy. The practice whereby the responsible departments manage collective enterprises should be changed and those collective enterprises with the conditions should be allowed to adopt the company system. 3) Foreign trade autonomy should be given to some collective enterprises which have the capacity to earn foreign exchange through exports, and their development as export-oriented economic units should be encouraged.

4. We must clearly set down the operational scope and operational forms of the various forms of the nonpublic ownership economy and clearly define the scope and corresponding policy limitations as to what is forbidden, what is restricted, what is allowed and what is encouraged in the development of the nonpublic ownership economy. These should be made publicly known by relevant departments and they should be guaranteed by legal, administrative and economic measures.

1) When we talk about the scope over which the development of the publicly-owned economy is to be forbidden, it refers to not allowing any other economic component, other than the state economy, to engage in the production or operation of certain industries or products. This mainly relates to industries and products which affect the economic lifeblood of the state, state security, social and economic stability, which guarantee the state's financial income, and which affect the state's capacity to control and regulate other economic components. This mainly includes posts and telecommunications, railroads, civil aviation, finance, insurance, aerospace industries, military industry, petrochemicals, nonferrous metals, iron and steel, news and publishing, extraction of rare minerals, and the wholesaling of major means of production and means of livelihood.

2) When we speak of the scope over which the development of the nonpublic ownership economy is to be restricted, it refers to industries and products of which or in which, apart from the state economy, the collective economy can, under certain conditions and in certain ways, enter into production or engage in operations. These are industries and products which play a major role in the national economy and the people's livelihood, but for which the state does not need to engage in a

monopoly. Thus, the state can stipulate limiting conditions, by such things as product taxes, technical standards, quality standards, pricing, supply and sales avenues, operational scale, operational methods, and so on. Or else, it can stipulate certain modes, such as equity participation, accepting orders for parts and components, arranging coordinated service, the undertaking of processing technologies and contracted sales. This mainly includes the products of the daily use chemical industry and the light and textile industries, chemical fertilizers, agricultural chemicals, general mineral extraction, metrological tools, consumer electrical products, vehicles, precision machine tools and ships, as well as the wholesaling of some means of production and means of livelihood, the tourism industry, and water and land transport. In these spheres, where the nonpublic ownership economy is not permitted to enter and the state need not hold a monopoly, we should encourage the great development of the collective economy.

3) When we talk about the scope over which the development of the nonpublic ownership economic is to be encouraged, it refers to industries and products where the nonpublic ownership economy can independently participate in production and operations and the public ownership economy need not control or maintain an absolute majority. This includes general processing industry and retail commerce, the wholesaling of small commodities, the sale of general means of production and means of livelihood and short-distance transport. In these spheres, the state should not give special encouragement and should not restrict any economic component. Rather, it should implement a policy of equal competition, where the superior succeed and the inferior are weeded out.

4) When we speak of the scope over which the development of the nonpublic ownership economy is to be encouraged, it refers to industries and products in which the nonpublic ownership economy can independently engage in production and operations and which the state needs to develop. This includes research and development of high-technology products, traditional technological processing, processing of imported materials for export, and tertiary industry which brings convenience to the people. In these spheres, the state should adopt a policy of encouraging all economic components. It should encourage those who achieve development to mobilize all positive factors to the greatest possible degree.

5) We must continue to guarantee the legitimate operations and legitimate rights and interests of individual industrial and commercial operations, and guide them to appropriately develop within the scope stipulated by the state, and bring into play their beneficial supplementary role in respect of the national economy and the people's livelihood. The legitimate operations of individual and private economy operations should be protected and encouraged and the arbitrary levying of charges and fines

should be restricted. We must suppress unlicensed operations by individual industrial and commercial operations and must at the same time simplify registration procedures and increase the transparency of the operations of individual industrial and commercial operations and private enterprises. The needs of individual industrial and commercial operations and private enterprises in terms of venues, water and electricity should be resolved as far as possible to prevent blind development.

6) We must earnestly strengthen necessary administrative management over the various economic components. The government departments should change their functions, orient towards the society, do well in administrative management and policy management of industries, and supervise and guide the various economic components to operate legitimately and to develop healthily within their own scopes. In coordination with the reform of government organs, we must cut back some of the enterprise managing departments, and strengthen the taxation, industrial and commercial administration, environmental protection, technical supervision, auditing, health and epidemic prevention, and pricing departments. We must control and strike at the various types of improper competition activities and guarantee normal economic order.

7) We must further do well in the work of clearing up "false collective" operations. We must stop individual industrial and commercial operations and private enterprises from using names such as "cooperative," "linked," "contract," and "leased" in order to enjoy the various preferential policies by which the state supports collective industry, and stop them producing or dealing in products which the state forbids nonpublic ownership operations from producing or dealing in. However, we must treat differently partnership enterprises which involve collective participation (for example through land, factories or equipment).

8) In conjunction with the reappraisal of assets and funds of state enterprises and property rights registration, we must strengthen management of state assets and correct activities where there is uncompensated use of state assets or encroachment upon their rights and interests. When state enterprises run collective enterprises, they should observe the principle of compensation at equal value, and separately account for costs and earnings. The profitable products and profitable workshops should not be given over to the collective operations. We should not allow the use of state enterprises' retained profits to issue "collective shares in the enterprise" or to transfer individual shares to staff and workers without compensation. On the basis of investigative research, we must formulate policies which in the collective economy define the ownership rights over the assets which results from investments from various sources. That which is owned by the state should be managed as a state share while that which is owned by the collective or by individuals should be assigned clear property rights, and be protected in accordance with law.

9. We must grasp the formulation of policies which will guide investment into the nonpublic ownership economy, encourage private entrepreneurs and individual industrial and commercial operations on the basis of their legitimate operations, to engage in productive accumulation and investment, and guide these in a direction which is in accord with the state industrial policies and ownership policies. Relevant departments should as swiftly as possible, formulate and promulgate a listing of industries and commodities which the nonpublic ownership economy is prohibited from, subject to restriction in, allowed to participate in or encouraged to participate in. They should also formulate and promulgate corresponding implementation measures to increase the transparency of policies and guard against blind development. The development scope of the various economic components and associated policies should be relatively stable and be conducive to long-term investment. We should continue to adopt leasing and auction forms and transfer the operation or ownership of some of the small-scale state industrial and commercial enterprises to other economic components. In some of the spheres in which the development of the nonpublic ownership economy is allowed or encouraged and even in some of the areas where it is restricted, we can implement the method of joint equity partnerships between diverse economic components.

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[Article by Zhou Lianshi (0719 3550 4258), of the East China Normal University Department of Economics, written in December 1991, edited by Lin Li (2651 4539): "On Economic Policy Principles of Modern Guidance Planning"]

[Text] Since 1984, our country has realized major achievements in the theoretical study and practice of guidance planning. However, it must be recognized that reform of our country's planning system has not achieved an essential changeover and quite a few enterprises are now in a vacuum situation where "mandatory planning provides no instructions and guidance planning gives no guidance." Thus, products are stockpiled, investment is duplicated, and the phenomena of stopping work and stopping production occurs frequently. Therefore, deepening implementation of guidance planning is a pressing task. The author feels that guidance planning is the optimum form of combination between planning and the market and that the entire essence of guidance planning lies in the application of economic policy principles.

I. Economic Policy System: Characteristics of Modern Guidance Planning

Everybody knows that guidance planning has been around for 50 years. However, an important characteristic of modern guidance planning is the economic policy

system and the application of its policy principles. Its formation was the inevitable result of the increasing policy nature of planning theory and the increasing planning nature of policy theory.

The practice in Western countries of using guidance planning for managing the economy began with the economic revival of Europe subsequent to World War II. However, prior to the 1970's, it was basically forecast planning. Following the intensifying of the economic contradictions of capitalism, beginning in the 1970's, Western guidance planning further developed into interventionist planning, which involved the use of economic policy measures. This meant that the economic policy system became an indivisible component part of guidance planning. Following the development of guidance planning theory, the position of economic policies in planning became increasingly prominent. Planning theory was increasingly subject to policies and it is this which is the new characteristic of modern guidance planning.

The trend of economic policies towards becoming planned and systematic is also a theoretical source in the formation of a guidance planning economic policy system. Economic policy studies are the product of modern capitalist states intervening in the economy and have as the target of their research enabling the government to ensure that the economy develops in the optimum direction. After economic policy studies became independent, not only did they study individual, specific economic policies, but they paid increasing attention to the comprehensive combination of policies and stressed a coordinated consistency between various policy goals, between the goals and policy tools, and between the various policy tools. This trend of comprehensive systematization has meant that economic policies have developed in the direction of planning and that the organically-constituted economic policy system became a component part of guidance planning.

From this we can see that the emergence of the economic policy system in guidance planning was not accidental. It was the result of guidance planning theory itself and was also nurtured through the development of policy studies. It is the combined product of these two trends. This is how many economists define guidance planning from a policy studies viewpoint and the "policy-nature planning" which has entered and become popular in our country is actually the name which policy studies gives to guidance planning.

II. Economic Policy System: Combination of Planning and Market

The most penetrating significance of the economic policy system lies in the fact that, after entering guidance planning, it produces a combination of planning and the market, something which economists have long sought for and over which they have incessantly debated, and

takes on the functions of lubricant and conductor between the planning mechanism and the market mechanism.

The economic policy system within guidance planning has an obvious planned nature. The economic policies in guidance planning appear in the form of plans. The economic policy system is a major conduction mechanism which implements the intent of the plans and, through the space constituted by the market, influences the enterprises. Thus, it is essentially different from nonplanned economic policies. Subordination to planning goals and having planning coordinate policies is an important characteristic of the policy system within guidance planning. This characteristic determines the dependence and utilitarian nature of policy in respect of planning. Only if economic policies serve an effectively implemented planning intent will they be able, in a targeted way, to eliminate negative elements in the market mechanism.

The economic policy system in guidance planning also has an obvious market-economy nature. Economic policy has three major elements—policy goals, policy subjects, and policy measures. The major of these is economic policy measures, while the basis of the policy measures is the policy tools. All economic policy measures are, in the end, the operation and application of policy tools. The original forms of policy tools are the various economic categories innate in the commodity economy, such as wages, value, exchange rates, interest rates, money flow, and so on. When these economic categories are used by the government to serve the realization of economic goals, they become economic policy tools. Thus, they not only manifest a market nature but are also manifested as the understanding and use of the market mechanism.

As the majority of the policy tools are commodity economy categories, their innate nature is that of mutual interests relationships between people. When the government uses these policy tools to engage in macroeconomic control and regulation, it is done by guiding and leading the interests motivations and relations of individuals and economic entities and influencing the orientation, scope, and speed of their economic activities. Thus, the use of economic policies can, to the greatest possible degree, bring into play the superiorities of the market mechanism and fully mobilize the dynamism, flexibility, and speed of the economic entities. This allows for overcoming the defects of the centralized planning system, such as slow reaction and insufficient impetus.

From this we can see the dual nature of the economic policy system in guidance planning and this fully proves that it is a combination of planning and the market. This nature can be confirmed through an analysis of the various policy tools.

First, monetary and financial policies are the most effective tools and can be used most widely. They realize control by determining and regulating the volume of

supply and demand of funds by individuals, enterprises, and localities, resulting in the combining of planning and the market. Following the development of the finance industry in our country, this policy tool will have quite broad prospects. Second, fiscal policies comprise a system of policy measures implemented by the financial authorities, relying on the government's power, to readjust the income distribution situation in order to realize the national economic goals. Under commodity economy conditions, fiscal policies achieve the planning and control goals through participating in the functional process of the market mechanism. Thus, in the same way, they are also combinations of planning and the market. Third, administrative control is a policy measure which government economic functional departments, through promulgating orders and targets on the basis of state power, use to intervene in economic activities. This includes credit controls, foreign trade and foreign exchange controls, as well as wage and price controls. They have advantages with which economic measures cannot compare—they are coercive, vertical, and direct and there is a coincidence of interests. The greatest advantage is that the time lag is short and results are seen quickly. However, as we noted for the centralized administrative measures, these obscure the differences between different departments and between different periods, suppress the motivation of microeconomic entities, and have a very great dampening effect on the economy. There are essential differences between the administrative controls in guidance planning and administrative management under the traditional system: 1) Administrative measures in guidance planning play a secondary, supplementary role in the overall economic system. Those playing the main and overall guiding roles are the purely economic measures. 2) In the economic policy system, administrative measures only play a specific or short-term role. For example, in time of war or crisis complete control might be implemented. At other times, there might be long-term high prices for agricultural products and, for products for which supply and demand are seriously dislocated, administrative regulation might be instituted, and so on. 3) The administrative measures in the economic policy system require strict adherence to economic laws. Thus, administrative measures in the economic policy system (henceforth policy-nature administrative measures) have a greater market economy component. Regardless of whether we speak of their position in the policy system, the time over which their role is brought into play, the target products for their role, or the degree of their adherence to the commodity economy laws, we can see from all these aspects the important role they play in combining planning and the market. Finally, economic legal measures are legal actions by which the state, relying on the coercive power of the law, guarantees the realization of economic goals. As policy measures, they ensure that the whole policy system and its tools are subject to the supervision and protection of the law. Without legal measures, guidance planning will lose its restraining power and will return to the classical

"intention" and "forecast" planning. Thus, legal measures maintain the authority of guidance planning, and are a legal guarantee for the combination of planning and the market.

III. Economic Policy Principles: Core of Modern Guidance Planning

The development of modern guidance planning theory shows that it is greatly insufficient only to have goals and a policy system. Whether or not guidance planning is successful is to a large degree determined by the coordination of the various elements within the plans, that is, on the use of economic policy principles.

1. The principle of compatibility between goals.

The goals of guidance planning are diverse. Regular contradictions between the goals are a major obstacle in the realization of planned guidance. For example, there are contradictions between price stability and economic growth, between income equality and growth in efficiency, between price stability and the international balance of payments, and so on. And, within any particular sector there are also other problems seen. For example, in agriculture, there is the contradiction between maintaining stable prices for agricultural products and raising the consumption levels of the peasants and between raising the self-sufficiency rate for grain and raising the productivity of agricultural labor. Thus, how many goals to set and how to make choices when contradictions occur are not major problems under mandatory planning but, in guidance planning, they are the crux of implementing the plans. The basic reason for this is that the former are implemented through administrative measures, while the latter are implemented through economic measures and are thus restricted by the various conditions and patterns of economic measures.

First, the rationality of the variable figure for guidance planning goals depends on the fixed goal law. This law is that the variable figure of measures must be smaller than the variable figure of the planning goals. Thus, in a general situation, if any particular economic goal does not have policy measures by which to realize it, there is no way for this goal to be realized. These are the goals which the planning departments subjectively wish to realize but which must be temporarily given up. The degree to which policy tools are lacking directly conditions the number of goals. However, in real economic life, sometimes our country's scholars point out that there are frequently "an excess number of goals." The result is either that because there is a relative lack of measures or the cost of the measures is too high, there is no option but to give up these goals, or else in order to force the realization of the entirety of the goals, a very high cost for applying the measures has to be paid. The fixed goal law principle can ensure that the number of guidance planning goals is established on a realistic and feasible base.

Second, when several goal variables cannot be implemented at one time, the flexible goal law can ensure that

the majority of the goals will be able, to differing degrees, to approach the expectation value. This avoids the political and economic cost produced by abandoning some of these goals and means that the optimum combination of guidance planning goals is achieved.

2. The principle of compatibility between goals and measures.

Apart from the need to coordinate between the various goals, we also need to recognize the contradictions which exist between goals and measures. This is because a goal has at least one policy tool as its means of implementation and the use of a policy tool often has a reaction on other goals. This produces a contradiction between goals. For example, in order to reform the traditional, centralized management system and develop agricultural production, we adopted the microeconomic basic policy constituted by the family contract system. However, this policy is contradictory to the goal of modernizing agriculture and especially to the goal of realizing operations of scale in agriculture.

When contradictions occur between goals and policy tools, first it is necessary to select the optimal replacement rate [ti dai lu 2583 0108 3764] for the tools in realizing the opposite goal and then, in accordance with the effects of the goals on the national economy, select the optimal replacement rate for the goal, thereby finding the optimal combination of goal and measures. The abovementioned method can eliminate the situation whereby after guidance planning fixes goals, in the formulation of policy tools, there emerges a series of incompatible elements.

3. The principle of coordination between economic policy measures.

After the above two contradictions are resolved, there still exists the contradiction between the various economic policy measures and policy tools. After diverse goals and diverse policy tools are set and the various tools are properly collocated, the opposite goals can be balanced and coordinated. On the other hand, if the policy tools are not properly collocated, it will increase the antagonism between the goals. This phenomenon is referred to as "erroneous collocation of measures." The principle of "efficiency in policy collocation" involves exploring the comparative superiorities of policy measures. This is so that policy tools can be collocated with the goals of most effect. In this way, the "efficiency of policy collocation" can be realized.

4. The principle by which intermediate goals overcome the time lag in policy regulation.

Time lag is one of the major enemies of macroeconomic regulation. Planning directives in mandatory planning are passed down from upper to lower levels through the administrative relationships. Thus, there is no, or quite a small, time lag. Guidance planning is implemented by the mutual roles of economic policy measures in the market and on the market mechanism. Thus, it can

produce a very large time lag. The time lag increases the time differential between planning goals and the use of policy tools, meaning that the period for policy effectiveness is lost and the power of macroeconomic control is weakened. In the economic policy principles, the selection and use of intermediate goals and intermediate tools will play a major role in overcoming time lag. This requires that: A large number of advance indicators are on hand and that the scope over which intermediate goals and intermediate tools are used is expanded; the goals are feasible, controllable, and correlated; and that we fully understand the length and characteristics of time lags produced by the various policy measures. For example, the time lag in formulating money policies is short but, because the effect is only achieved through investment, the effective time lag is long. Also, the formulation of fiscal policies often requires repeated debate and long processes and thus sees quite a long time lag. However, the effects are seen quite quickly. The time lags for the various fiscal policy tools are all different. For example, the time lag in formulation of a graduated income tax is long, as there should not be any readjustment during the year. However, because of the temporal uniformity of expenditure and tax payment, the effective time lag is virtually zero. Meanwhile, proportional tax can be regularly changed in accordance with the economic situation, but there is a very big time lag on the understanding level and so on.

IV. Guidance Planning: Great Door Out of Economic Reform Labyrinth

China's economic reforms have realized major achievements and have widely received good reports and great attention from the international media. However, the reforms still face serious difficulties and pitfalls. Inflation, unemployment, the coexistence of income distribution unfairness and egalitarianism, a great decline in economic performance, and so on, all confirm that China's economic reforms are still in the "realm of necessity." We have continually thought about and reflected on the question of how to escape the labyrinth of economic reform. How is the state to regulate and control the socialist commodity economy? From whence does the overall theory of reform proceed?

I believe that, under socialist conditions, it is only through the use of an economic policy system and its principles that it will be possible to resolve the contradictions between price stability and economic growth, between income equality and efficiency, and the contradiction between the readjustment of the industrial structure and economic growth, to eliminate a series of economic problems, including economic stockpiling and duplicate construction. There should be development of the market, reliance on the market, and also guidance of the market, to reduce the negative roles of the market to the lowest possible degree. Thus, guidance planning is the great door out of the economic reform labyrinth and is the optimal form of combining planning and the market. To deepen implementation of guidance planning we need to develop work in the following several aspects:

1. We need to strengthen study, research, and exploration of the theory of guidance planning, especially economic policy theory. The implementation of our country's guidance planning work began quite early. However, theoretical preparation was insufficient and research and understanding of the theory of guidance lagged behind the needs of practice. The exploration of policy theory has only just begun among a small number of scholars in recent years. During the early years of reform, we began to pay attention to the use of economic levers. However, economic lever theory is not equivalent to economic policy theory. The two have common elements but there are also quite fundamental differences between them: 1) Economic levers only refer to economic regulatory measures. The term does not include the administrative controls which are still necessary in small numbers in the management of the national economy or legal measures which play a supervisory and guaranteeing role. However, the scope of economic policies is much wider. Of its economic regulatory measures, apart from its major measures such as monetary policy and fiscal policy, it also uses administrative measures and legal measures as supplements. In addition, economic policies also include structural policies and basic microeconomic policies. Thus, it is able, over the widest possible scope, to engage in coordination and combination of policies. 2) In accordance with economic policy principles, there must be compatibility between the various goals of economic policy, between the goals and the policy tools, and between the various policy tools. Thus, between the various economic policies, which are policy-making decisions, there exists a logical relationship. However, this relationship does not exist between economic levers. From this we can see that the extension and intension of economic policies within guidance planning are much broader and deep going than those of economic levers. If we wish to deepen guidance planning work, we need to begin by understanding economic levers and then raise this work to the high plane of economic policies in the policy-studies sense.

2. We must gradually, in accordance with the conditions, expand the scope of the role of guidance planning. The economic development since the beginning of economic reform shows that in an economy which is seeking diverse goals, the emergence and resolution of contradictions between various economic goals has greatly transcended the scope of enterprises within the budget. The inflation in the scale of investment is the result of the diversification of investment subjects and especially the great increase in extra-budgetary investment, while there has been very weak macroeconomic guidance and control. State-owned enterprises are also suffering from serious unemployment but this problem has to be dealt with within the enterprises. Regardless of whether we look at this from the angle of raising microeconomic performance or from the angle of cooperation based on socialized division of labor, these are unwise policies. The final resolution of the employment problem is to

rely on diverse economic components and diverse channels to digest and absorb the labor. That is to say, we need to implement throughout the whole society, employment guidance regulation and control. Also, unfairness in social distribution is a problem of distribution readjustment among the members of society at various levels, while within whole-people units, there is serious egalitarianism. In brief, if one limits guidance planning only to whole-people enterprises, this will objectively weaken the economic guidance for the whole society and, at the same time, will seriously inhibit the development of large and medium-sized state enterprises. This is an important reason why during our country's economic reforms there has been a loss of control on repeated occasions. Thus, there is a need, in accordance with the conditions, to gradually expand the scope of guidance planning to the entire society. Apart from key and backbone enterprises, which should remain under the management of mandatory planning, the majority of state-owned enterprises, collective enterprises, Chinese-foreign joint ventures, private enterprises, and so on, should be brought within the scope of the role of guidance planning.

3. We should establish a guidance planning organization. A guidance planning organization is an organization by which the various economic policies are coordinated in accordance with planning intent. Thus, it is also the core coordinating organization of the functional departments. The tasks of the guidance planning organization are; 1) To organize and formulate various guidance planning goals. 2) To formulate an economic policy system by which to implement these goals; and 3) To supervise the implementation of the policies by the various functional departments and to harmonize the various contradictions during implementation. In addition, there are also a number of comprehensive service-function departments, such as the economic research centers, which can take on the work of economic policy forecasting and analysis and provide economic analysis reports for the guidance of planning departments. The statistical bureau would gather and arrange the various statistical data for guidance planning. Following the expansion of the role of guidance planning, the function of coordinating plans will not be restricted to enterprises within the budget. Rather, it will be necessary to break down the boundaries between ownership systems, to engage in all sorts of vertical, horizontal, official, and nongovernmental coordination, and establish corresponding coordinating organs. Nongovernmental coordinating organs can ensure that representatives of all economic interests participate in the formulation and revision of guidance planning and policies, will link up economic information from all sides, and will ensure that the interests of all sides are coordinated. Nongovernmental coordination organs will become major means by which to participate in and be subject to macroeconomic planned guidance.

4. In order to guarantee the prime position of the public-ownership economy in the national economy, and

promote the overall development of diverse economic components, we must further implement various sorts of basic microeconomic policies, including the enlivening of large and medium-sized enterprises. In addition, for the various management systems, such as the financial system and the banking system, we must study and adopt policies for deepening reform. That is, we must adopt systems policies within overall policy-making. Systems policies are the highest level policies in the policy system, while basic microeconomic policies are the basis of the four major economic policies and systems policies.

In brief, only if we persist in proceeding from China's reality and, in a selective way, we draw in the policy-making ideas from the development of modern guidance planning, will our guidance planning work be able to see breakthrough development.

Journal Views Sichuan Natural Gas Price System

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[Article by Jia Jinzhong (5592 7022 1344): "Ideas on Readjusting 'Double-Track System' of Prices for Sichuan Natural Gas"]

[Text] Natural gas is one of the most important sources of high-quality energy in today's world, constituting more than 20 percent of the primary sources of energy. It is both an important raw material for chemical industry and a widely recognized clean and efficient energy source. Our country is rich in natural gas deposits, most of which has yet to be tapped and utilized. At present, known deposits are not much and production level is relatively low. The industry is still at the initial stage of development. Though a few areas have developed considerable production capacity, the industry is still basically a regional economy. The long-standing gap between price and value, in particular, has hindered the development of the natural gas industry. Although natural gas prices were raised five times during the period from 1972 to 1984, the question of price distortion has not been fundamentally solved. In 1984, the State Council approved the "double-track system" for natural gas prices, which produced some positive effects on promoting the industry. However, with the development of economic reform, the contradiction between the price and value for natural gas has become increasingly more conspicuous, and the "double-track system" can no longer meet the requirement of development.

I. Necessity To Adjust Natural Gas Price

Although the natural gas industry is so far a regional economy, it has become vitally important to the local economic development of regions where it is located. Take Sichuan as an example for a brief analysis.

1. The role of natural gas in Sichuan's economy

Sichuan's strong industries and pillar products have come to the fore and developed alongside the development of the natural gas industry. The industrial structure of the province underwent major changes at the beginning of the 1960's, and heavy and chemical industry rapidly developed. This was, on the one hand, a result of the efforts by the state to push extensively third-line construction projects in Sichuan, and, on the other hand, was directly related to the exploration and utilization of natural gas. Because of the development of the natural gas industry, Sichuan has built the country's largest chemical fertilizer and heavy machinery industrial bases. Industries such as chemical fiber, iron and steel, and electronics all benefit from the supply of natural gas. In addition, Sichuan is a major agricultural province of China. Fertilizer is the key to increasing grain output. The supply of natural gas supports the development of the chemical fertilizer industry, and reduces China's spending of foreign currency on chemical fertilizer imports. Currently more than 70 percent of the key enterprises of the province are closely related to the supply of natural gas. Sichuan is short of commodity coal, oil output is small, and railway transport capacity falls far short of demand. Under the current economic and technological conditions, the possibility of replacing the use of natural gas in the industrial sectors mentioned above is not great. It is not hard to see that natural gas is involved in Sichuan's overall economy. It has a bearing on the readjustment of the industrial structure and industrial distribution of Sichuan and plays a vital role in Sichuan's economic development.

2. The distortion of price for natural gas and its impact on economic development

Prices of energy and raw materials have long been lower than they should be in China, and this has not only helped stimulate the blind development of the processing industries, but also has been harmful to conserving energy and reducing consumption, and has sharpened the contradiction between supply and demand. The supply of Sichuan natural gas involves the three provinces of Yunnan, Guizhou, and Sichuan. Since the implementation of the policy to contract out natural gas as a commodity at a constant volume and the introduction of the "double-track system" for prices, people have competed with each other to obtain contracted gas, and new users have basically used gas in excess of the contracted volume. Thus, the mechanism is deprived of fair competition as far as distribution and benefits are concerned. On the other hand, because of price distortion, users even compete with one another for gas in excess of the contracted volume, causing a sharp shortage in the supply of commodity natural gas. The shortage is currently estimated to be 1 billion cubic meters. The processing industry's capacity far exceeds the supply of natural gas, and processing facilities cannot be fully utilized with 25 to 30 percent of Sichuan's chemical fertilizer production capacity being left unused for a long period of time. Similar problems exist in other industrial sectors which consume natural gas.

3. The cause of slow growth of the natural gas industry in Sichuan and its relationship to Sichuan's financial condition

The major cause of the slow increase of natural gas output is a result of the lack of reserve deposits. The deposit and extraction ratio of the known deposits in 1990 was only 12:1. The lack of reserve deposits is because of insufficient prospecting and development. Only 61 percent of the planned depth of drilling was accomplished in the Seventh Five-Year Plan, and the fundamental cause for insufficient work is the lack of funds, for which the major reason is the distortion of prices for natural gas. Without sufficient investment, the amount of prospecting and development funds obtained from natural gas at excessively low prices is limited. Natural gas prospecting and development enterprises have long been suffering losses and depending on loans for their operation. They can hardly continue to survive.

Viewed from Sichuan's financial situation, natural gas is related to 60 percent of the province's industrial output value. In 1988, 45,346 million yuan of the total industrial output value was achieved by using natural gas as a raw material or fuel and on an average, every 100 million cubic meters of natural gas have a direct or indirect bearing on 922 million yuan of industrial output value. Though we cannot credit natural gas entirely with the industrial output values of enterprises which use natural gas, it is very hard to produce such values without the supply of natural gas. For chemical fertilizer, chemical fiber and chemical enterprises, in particular, natural gas is the foundation for their survival and development. However, natural gas prospecting and development enterprises are running at losses over a long period. It proves that the benefits of distorted prices for natural gas are being transferred to the processing industries and that distorted prices hinder the development of the natural gas industry.

4. We must seize the hour to readjust natural gas prices

Natural gas is one of the nonregenerative valuable resources. How to exploit natural gas faster in order to serve the socialist economic construction in our country is a subject that needs urgent studies in energy development strategy. According to other countries' practices in oil and gas prospecting and exploitation, gas is likely to be found in places where oil exists. However, there is not always oil in places where gas is found. Various oil and gas fields in our country and the Sichuan natural gas fields have also proved the correctness of the conclusion. Of the seven countries which each produce over 100 million tons of oil annually, four are also major gas producers. China is one of the countries which produces over 100 million tons of oil a year; and according to assessment on geographical resources, the development of natural gas holds promise. Gas deposits in Sichuan are estimated to be a quarter of the total in the country; and though the natural gas industry is still a regional

economy, natural gas, as viewed from the overall situation, has become an important source of high-quality energy for Sichuan, Yunnan, and Guizhou provinces.

The increase of natural gas output depends on more investment, which, in turn, depends on whether or not the prices for natural gas are readjusted in good time. With the current difficult financial situation facing the government, it is not advisable to rely on the state to increase capital construction loans or funds for making up for financial losses of enterprises. Therefore, to readjust natural gas prices in good time has become the key to the development of the natural gas industry. Solving the problem of price distortion of natural gas, increasing investment in the natural gas industry, and proceeding from enlivening large and medium enterprises and making haste to readjust natural gas prices, are quite feasible approaches to solving the question of funds and to promoting the development of the natural gas industry.

II. Ideas on How To Readjust Natural Gas Prices

Natural gas is an important, valuable, and rare source of energy in our country. Viewed from the amount of known gas deposits and the tendency of demand for and supply of energy in future, the shortage of natural gas supply will remain unresolved for a long time to come. Natural gas prospecting and extraction require much investment, and gas fields take a long time to build. Because of limited known deposit, readjustment of natural gas prices cannot immediately help spur production, and production still cannot be regulated by the market. With insufficient reserve deposits of natural gas, production is limited and supply is short. Therefore, conditions are not yet ripe for natural gas enterprises themselves to fix prices.

The purpose of reforming the "double-track system" for natural gas prices is to unify the two tracks of prices. However, the more important thing is to narrow and eliminate as soon as possible the big gap between price and value; and the value, price, and policy for oil should also be used for natural gas so the targeted prices for oil and gas products can be reached as soon as possible (the targeted price for crude oil is 500 to 600 yuan per tonne, and 1,000 cubic meters of natural gas are equal to one tonne of crude oil) that the natural gas industry will gradually embark on the road to a benign cycle. As natural gas is not yet widely involved in the whole country, the reform of natural gas prices is feasible if the taxation departments, natural gas consumer enterprises, and the circulation sector share the burden.

Quite a number of experts and scholars at home and abroad have proposed natural gas prices be fixed on the basis of the value or production price under poor production conditions, and other people have proposed to fix the prices on the basis of the price ratio of energy sources. But in most cases, the international markets fix the prices on the basis of supply and demand in fair competition. These methods of fixing prices all have

some value of references for us. The natural gas industry in our country is at the initial stage of development; and considering current and future development, I believe the price should be based on total well site production costs plus the rate of average social profits. Based on this line of thought, and considering the speed with which to unify the two tracks of the "double-track system," I have raised the following three ideas for policymaking bodies to choose:

1. The fact that natural gas prices have long been lower than they should be and that the industry has run into substantial debts has already affected the development of the natural gas industry and Sichuan's economy. Relevant departments of the State Council have repeatedly studied the issue of price readjustment. The principle for price readjustment of natural gas is to use the same prices and policies as those for crude oil. Both fund shortage and financial losses in natural gas production should be resolved. When the state financial situation permits, the state fixed low price of natural gas should be eliminated and the two tracks of the "double-track system" be merged. At the same time, the tax on natural gas products should be adjusted to three percent, and rate of tax on large chemical fertilizer's products to 10 percent to alleviate the pressure on natural gas and fertilizer consumers after the price is readjusted.

Based on this idea, a unified price for natural gas is expected to immediately correct the imbalanced distribution of interests between natural gas production and consumption, to be conducive to increasing the development capacity of the natural gas industry, and to improve the efficiency of gas consumer enterprises so the natural gas resources are more rationally utilized.

Starting from 1992, well site prices for contracted gas were raised from 130 yuan per 1,000 cubic meters to 400 yuan per 1,000 cubic meters, an increase of 207.7 percent, while those of gas exceeding the contracted volume were raised from 260 yuan per 1,000 cubic meters to 400 yuan per 1,000 cubic meters, an increase of 53.8 percent. In the Eighth Five-Year Plan, if an average of 4.7 billion cubic meters of contracted commodity gas and 1.26 billion cubic meters of gas exceeding the contracted volume are taken for calculation, the natural gas industry can make an additional annual income of 1,445 million yuan as a result of raising prices. Of this amount, light industry bears 215 million yuan while heavy industry 1,230 million yuan. In terms of trade, the chemical industry bears 691 million yuan, the chemical fiber industry 96 million yuan, the ferrous metal metallurgical, rolling, and processing industry 164 million yuan, the machine-building and electronic industries 96 million yuan, and everyday consumers 70 million yuan. According to statistics, 43.4 percent of the commodity natural gas was used as fuel and 56.6 percent was used as material in Yunnan, Sichuan, and Guizhou during the Seventh Five-Year Plan period. Of the total quantity of commodity gas, the amount consumed by industry was 93.3 percent while civilian use was 4.85 percent. Based on this ratio, the

industrial sector will bear 1,348 million yuan, of which 782 million yuan will be borne by users using natural gas as raw material. If the material consumption in various sectors remains unchanged, the prices of chemical fertilizer products using natural gas as raw material is raised, and the tax on major chemical fertilizer products is lowered from 20 to 10 percent, the profits will remain unchanged, other industrial and civilian users will be able to withstand the price rises, and higher gas prices will produce virtually no impact on the national retail price index and the index on costs of living for staff, workers, and peasants.

In this idea, the extent of price rises of contracted gas is slightly higher and those of gas exceeding contracted quantity is relatively lower. This needs appropriate readjustment of taxes on natural gas and chemical fertilizer products so the realization of merging the two tracks of the "double-track system" at once can help natural gas production enterprises make some profits instead of suffering losses and that a foundation can be laid for achieving the targeted price level by the end of the Eighth Five-Year Plan.

2. In consideration of the limited capacity of state finance to support price reform, a gradual and transitional approach can be adopted in raising natural gas prices and merging the two tracks of the "double-track system." This idea is to readjust the price annually and gradually. Beginning from 1992, price for contracted gas is adjusted to 240 yuan per 1,000 cubic meter, and gas exceeding contracted quantity to 350 yuan per 1,000 cubic meters. In 1993, prices for contracted gas will be readjusted to 300 yuan per 1,000 cubic meters and those of gas exceeding contracted quantity to 400 yuan per 1,000 cubic meters. In 1994, prices for contracted gas will be raised to 350 yuan per 1,000 cubic meters and those of gas exceeding contracted quantity will remain unchanged. In 1995, prices for all kinds of commodity gas will be unified at 400 yuan per 1,000 cubic meters, and at the same time, the tax rate on natural gas products will be adjusted to 3 percent, and that on major chemical fertilizer products to 15 percent. The natural gas industry is expected to make through price adjustment respectively 630 million yuan, 980 million yuan, 1.21 billion yuan, and 1.44 billion yuan in four years, a total of 4.26 billion yuan.

According to this idea, the initial price rise for contracted gas is 84.6 percent, and that of gas exceeding contracted quantity is 34.6 percent. This moderate price rise can be accepted by the users and has a relatively small impact on state finance. Based on the previously mentioned ratio, the industrial sector bears a total of 3.97 billion yuan in four years, of which the chemical industry bears 2.04 billion yuan, the chemical fiber industry 280 million yuan, the ferrous metal metallurgical, rolling, and processing industry 480 million yuan, and the machine-building and electronics industry 280 million yuan. Again, if the material consumption in various sectors remains unchanged, and if the prices of major chemical fertilizer products which use natural gas

as raw material are raised, the profit level of such products can remain the same by appropriately lowering the rate of tax on products. As natural gas is not substantially involved in production costs of other sectors, higher gas prices will not reduce profits and taxes delivered to the state by these sectors. All other sectors can absorb the price rises of natural gas. There will not be any impact on the price index and cost of living.

Compared with the previous idea, this one is relatively more feasible and practical under the current macroeconomic environment in the country as it will produce little impact on state finance. However, it takes longer to merge the two tracks of prices. Besides, natural gas enterprises may still suffer from minor losses and minor fund shortages. If enterprises' obligatory contributions to the energy and transport construction fund and the regulatory fund is exempted or reduced, structural prices for gas exceeding the contracted quantity are adopted, that is, in accordance with the economic situation of natural gas users, prices are raised by 20 to 30 percent on the basis of the readjusted price, and measures such as tapping the potential and reducing consumption are taken by natural production enterprises, the problems of fund shortages and financial losses can also be basically solved.

3. If price reform for natural gas coincides with a difficult period in the state finance which cannot offer much support to the reform, we may adopt measures to gradually raise the fixed price of contracted natural gas to a level dictated by the market. That means raising the well site price for contracted gas from the current price of 130 yuan per 1,000 cubic meters to 200 yuan per 1,000 cubic meters in 1992, and that of gas exceeding the contracted quantity from the current price of 260 yuan per 1,000 cubic meters to 400 yuan per 1,000 cubic meters, an increase of 53.85 percent. The rate of increase from the state fixed price to the one dictated by market in 1993 will be 100 percent. This idea readjusts the price gradually and annually increases the price of contracted gas by 25 percent toward market prices. By 1995, the goal of a unified price will be realized with the average well site price at 400 yuan per 1,000 cubic meters. At the same time, the rate of tax on natural gas products will be readjusted to 3 percent, and natural gas enterprises will be exempted from obligatory contributions to energy and transport construction and regulatory funds.

According to this idea, the natural gas industry can make an income of 3.44 billion yuan in four years through raising prices. In 1992, the income will be 510 million yuan; in 1993, 740 million yuan; in 1994, 980 million yuan; and in 1995, 1.21 billion yuan. In terms of the industrial sector and the civilian sector, the former bears a total of 3,210 million yuan, and the latter 167 million yuan in four years. In terms of trade, in four years, the chemical industry bears 1.645 billion yuan, the chemical fiber industry 228 million yuan, the ferrous metal metallurgical, rolling, and processing industry 391 million yuan, and the machine-building and electronics industry 228 million yuan. This idea will have little impact on

users of various sectors. With higher prices for major fertilizer products which use natural gas as raw material, the current level of profits and taxes delivered by chemical fertilizer plants can be maintained. Higher gas price will not have any impact on the production costs, prices, profits, and indices of profits and taxes of other natural gas users of the industrial sector either. However, tax reduction and exemption of this idea still cannot solve the problem of fund shortages and financial losses suffered by natural gas production enterprises, and it will be difficult to promote the development of the natural gas industry.

The difficulty with reforming natural gas prices lies in the fact that prices of both contracted gas and noncontracted gas are far too low and too many debts incurred: debts left from the past and new debts resulted from increased costs in gas exploration and production. Effective measures must be taken to solve the problems.

1. Efforts must be made to avoid incurring new debts. As fixed amount of commercial supply of natural gas are contracted out and gas prices fixed by the state still exist, a compensatory price-raising system should be established, that is, natural gas prices should be raised annually to the extent that natural gas enterprises will incur no new debts. In addition, on the basis of taking into consideration changes in conditions and costs of natural gas production each year, the increase in natural gas prices should be linked with the index of the increase in market prices of major production means. If the extent of rise of natural gas prices is within the above limit, natural gas production enterprises should simply report to relevant state departments for approval and for the record.

2. Clearing of old debts should be done in a planned manner. The charges on natural gas consumption should be raised to the same level as those on crude oil. Depreciation funds should be sufficient to supplement funds for upgrading and transforming equipment. The percentage of spending on maintaining oil and gas fields included in the cost of production of natural gas should be increased. In addition, the product tax rate should be adjusted, and natural gas enterprises should be freed from the obligatory contribution to the energy and transport construction and regulatory funds to enable gas prices to reach the targeted price in the near future.

The above analysis shows that the first idea, though conducive to solving the problem of irrational prices for natural gas as soon as possible, is too radical and will likely have some impact on various sectors. It is only feasible if the state can give strong financial support to it. While requiring fewer preconditions, producing less of an impact on natural gas consumers, and being easy for the state to control, the third idea cannot quickly solve the serious problem of price distortions for natural gas. Natural gas production enterprises will still have to suffer from fund shortages and incur financial losses. So, the idea is unlikely to help push the development of the natural gas industry. The second idea uses a gradual and

transitional approach which will produce little impact on various sectors, and is conducive to the gradual abolition of the "double-track system" for natural gas prices and to solving the problems of fund shortages and financial losses. In view of the economic environment in the country and the state financial situation, the idea is feasible and is, therefore, a practical and feasible option.

Socialist Nature of Opening Up Viewed

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[Article by Wang Yueqiang (3769 1878 1730): "Stick to the Three Criteria and Expand Reform and Opening Up"]

[Text] Whether guiding principles, policies, and measures formulated in reform and opening up are of a "socialist" or "capitalist" nature is determined by whether they are beneficial to the development of the socialist productive forces, the enhancement of the comprehensive national strength of our socialist country, and the improvement of the living standard of the people. The establishment of this "three-benefit" criterion has provided a new ideological guide for deepening reform, expanding opening up, and creating a new situation in our socialist modernization.

I.

"The basic principle of Marxism is to develop productive forces," and "the fundamental task in the socialist stage is to develop productive forces." To develop the productive forces of a socialist society, it is necessary to establish an economic system which conforms with the society, and its specific economic setup. During the early 1950's, the economic system established in our country opened a bright prospect for the development of productive forces, and its economic setup in a specific form, and operational mechanisms once played a positive role. However, with the development of commodity economy and the enhancement of the level of the socialization of production, many defects in the economic system itself increasingly became obstacles to the development of productive forces. During the reform over the past 10 years or so, although great changes have taken place in our economic system, some long-standing and deep-rooted problems in economic development are far from being solved. This has severely hampered further development of our productive forces. Only by reforming the economic system and deepening reform can we first emancipate productive forces and then develop them. There is no other way out except this.

We have encountered many problems in reforms. In particular, the problem whether a thing is "socialist" or "capitalist" in nature has terrified some comrades. They step back in fear, or hesitate to do things because of this. Early this year when Comrade Deng Xiaoping was inspecting Guangdong, he gave important expositions. In light of some people's thinking and worries about making a big step in reform and opening up and breaking through, and their fear of taking the capitalist road, he

proposed the "three-benefit" criterion for judging things. This has enlightened us immediately, so that this long-disputed question can be readily solved.

Ours is a society which emerged from the womb of a feudal society which lasted more than 2,000 years, a semi-colonial and semi-feudal society which had a history of more than 100 years, and a society which was extremely backward economically and culturally. Such society was not developed in productive forces, and its general level of scientific and technical development lagged far behind developed nations. Such basic national conditions have determined that we must take development of productive forces as a basic task in the initial stage of socialism. This was a matter of course. However, we realized this only after summing up experiences and taking lessons of the past several decades. During the "great cultural revolution," we criticized the so-called "theory that productive forces decide everything," and the so-called "theory that puts technology in command." We propagated that "we would rather want grass of socialism than seedling of capitalism," and so on. In the course of deepening reform and expanding opening up, some comrades are worried about having too many capitalist things, and taking the capitalist road. Modern world history has told us that only by utilizing the strong points of other countries, including capitalist countries, and absorbing in a critical way useful things from Western culture can an economically backward country speed up its own development. Factors which hamper economic development of economically backward countries are lack of capital, technology, talented personnel, and management experience. In this regard, developed capitalist countries are comparatively advanced and strong. We are fully allowed to absorb and utilize them boldly. Since productive forces are a kind of vested forces, they bear a characteristic of continuity and inheritance. In particular, today when productive forces have been fully socialized and internationalized, we must select and absorb their best and most advanced parts, and turn them into our own. It is not only possible, but also necessary for us to do so. We are deepening reform and expanding opening up. In a certain sense, our purpose in doing so is to make more effective use of advanced productive forces created by capitalism to push speedy development of our country's productive forces. There is no doubt about this.

"As long as a method is beneficial to the development of socialist productive forces, we must be bold in conducting experiments and applying it no matter where it comes from. We must firmly oppose and get rid of all things which hamper the development of productive forces no matter how 'revolutionary' their labels are." This criterion for judging things completely accords with the objective requirements of the economic law that production relations must conform with the development of productive forces. There is no doubt that it is a scientific criterion.

II.

"A marked feature of the contemporary world is that it is a new era in which the aggressive wars and arms race of

superpowers have been changed into a contest of comprehensive national strength. A worldwide strategic pattern of the contest of comprehensive national strength is being gradually formed. To contend for strategic superiority in the coming century, various countries in the world have regarded the enhancement of comprehensive national strength as a strategy of countries of the new generation." China is a socialist power with a population of more than 1.1 billion. To make our due contribution to mankind, we must, first of all, develop ourselves and regard the enhancement of our comprehensive national strength as an aim to formulate our national strategy for the new period.

"Comprehensive national strength is a sum total of a country's all actual strength and potential (namely material and spiritual strength), and its influence in the international community." Over the past 40 years or so since the founding of the people's republic, our country's comprehensive national strength has been tending to increase. Our rank in the world advanced from the 13th in 1949 to the 10th in early 1960's. It further advanced from the eighth in 1980 to the present sixth. Practice has shown the correctness of the Communist Party's leadership and the superiority of the socialist system. However, we are not conceited, because we know very clearly that ours is, after all, a developing country and belongs to the Third World. Compared with developed nations, we lag far behind in economic, scientific, technical, cultural and educational strength. Proceeding from our present national conditions and strength, we must take forceful countermeasures so that we can achieve all-round and coordinated development in economy, science and technology, culture, education, national defense, and so on to further enhance our comprehensive national strength.

What are those forceful countermeasures? They are deepening reform and expanding opening up to the outside world. Through further deepening reform and expanding opening up, we can boost our comprehensive national strength. This will not only fully demonstrate the superiority of our socialist system, but also enable our country to play a more important and positive role in international affairs. This conforms with the basic interests of the Chinese people and accords with the new trends of the world. Naturally, it is a scientific criterion because its judgment on things are based on whether they are beneficial to enhancing comprehensive national strength of our socialist country.

III.

The objective requirements of the basic socialist economic law are reflected in a most concentrated way in the purpose of socialist production. In other words, on the basis of the continuous development of production, the material and cultural life of the masses should be constantly improved. Comrade Deng Xiaoping pointed out: "The socialist economy is based on public ownership. The purpose of production is to satisfy people's material and cultural needs to the greatest extent rather than exploiting them." Moreover, our purpose of reform

and opening up is also to constantly improve people's material and cultural life. We can talk a lot about the superiority of the socialist system. What is its greatest and most essential superiority? We should say that it is common prosperity. Just as Comrade Jiang Zemin has said: "Poverty is not socialism. If only a small number of people are rich, but the majority are still poor, it is not socialism either."

In economic construction and reform and opening up, if the policies we formulate and measures and methods we propose hamper or even retard the improvement of people's living standard rather than benefiting it, they are undesirable no matter what their political labels are. Of course, judging whether a reform measure is beneficial to the improvement of people's living standard does not mean that once it is promulgated it can improve the living standard of all people. But it must improve general living standard of the majority of people and gradually benefit them.

For a fairly long period of time in the past, we took "class struggle as the key link," and neglected the development of productive forces, and the improvement of people's livelihood. Under the guidance of the "leftist" ideology, we even criticized efforts to improve people's livelihood as "being in pursuit of the bourgeois way of life." Therefore, the enhancement of our people's living standard was very slow, and our people rarely benefited. This prevented our socialist system from fully demonstrating its superiority and dampened mass enthusiasm for socialist construction. We must firmly bear this lesson in mind.

A criterion based on improvement of people's living standard is the most fundamental criterion. We should say that the ultimate aim of developing our socialist society's productive forces and enhancing our socialist country's comprehensive national strength is to lay a powerful socialist material foundation and serve the constant improvement of people's living standard.

The "three-benefits" of the judging systems differ from one another, but are mutually linked. The establishment of such criteria has broadened our views, provided a basis and pointed the direction for deepening reform, expanding opening up, emancipating minds, and boldly blazing new trails. We must conscientiously study, profoundly comprehend, and truly implement them. If all of us can do so, there will be a new and favorable situation in reform and opening up. Our economic construction is bound to develop considerably, and the living standard of the Chinese people will be markedly improved.

PROVINCIAL

Interior Provinces Seek To Accelerate Development

OW1606120492 Beijing XINHUA Domestic Service
in Chinese 0902 GMT 15 Jun 92

[By RENMIN RIBAO reporter Huang Caizhong (7806 1752 1813) and XINHUA reporter Li Niangui (2621 1628 6311)]

[Text] Beijing, 15 June (XINHUA)—"Open up the areas along the Chang Jiang and Huang He and develop international and domestic markets"—The six interior provinces in central China are going to adopt this strategy to, as a whole, open themselves and develop from a high starting point to become a comprehensive economic region that combines the characteristics of the east and west, supports and promotes the stable and coordinated economic development of the country, and remains full of vigor and vitality. This is the development strategy and idea put forward at the "Symposium on the Strategy and Policy for Developing the Six Provinces in Central China" which was held here today.

The six provinces are Shanxi, Henan, Hubei, Hunan, Jiangxi, and Anhui. They cover an area of 1,026,900 square km, which is 10.7 percent of the total land of the country, and, as of the end of 1990, they had a population of 324 million, accounting for 28.6 of the country's total. This region is the cradle and birthplace of the ancient civilization of the Chinese nation. The more than 40 years of economic development following the founding of the country has proved that the development strategy for central China must be carried out within the framework of the state's general development strategy. It has also proved that the speed of central China's economic growth must be quickened, after coastal areas are developed first, with central China's continuous support. This will enable the economies both within and outside the region to develop together, achieve a rational division of labor, develop their strong points, and supplement each other with their respective strengths. Only by accelerating the development of the six provinces in central China and reinvigorating central China's economy can we effectively promote the coordinated development of the eastern, central, and western parts of China.

Following the Third Plenary Session of the 11th CPC Central Committee, and particularly in recent years, coastal areas in eastern China have continued to accelerate their pace of reform and opening to the outside world and have maintained speedy economic development. Border areas in the west also have continued to open wider to the outside world. The economic gap between central China and the coastal areas in eastern China has widened, and the former does not have enough staying power for development. Caught in a squeeze between the east and the west, and besieged by the south and north, the six provinces should step up their pace of reform and opening, make the four provinces along the middle reaches of the Chang Jiang and the areas along the Huang He the breakthrough points and key regions for opening up to the outside world, and develop these areas into densely industrialized regions, open demonstrational areas, and economic development [words indistinct]. The six provinces should also strive to develop international and domestic markets and vigorously explore new ways to actively open part of their domestic markets to attract foreign investments. During the course of developing markets, they should attach

importance to both international and domestic markets. They should orientate themselves to the domestic markets in the east as well as those in the west. The six provinces should promote and accelerate the development of a commodity economy by developing both international and domestic markets.

The symposium maintained that the key points of the development strategy for the six provinces in central China are: Vigorously develop good quality and high efficiency in agriculture and in village and township enterprises; set up China's largest centers of quality commodity grain, cotton, hemp, tobacco, freshwater fish breeding, forestry, fruit, tea, mulberry, and commodity animal husbandry in the Huanghuaihai Plain and the Chang Jiang Valley, as well as vigorously develop and expand export-oriented agricultural centers; continue to strengthen energy and raw materials industries that focus on coal, electric power, metallurgy, petrochemistry, and building materials; consolidate transport and communications industries, while stressing hubs of transport and communications, to form a comprehensive transport system and information network that extend in all directions, transmit easily and promptly, and meet the basic needs for opening to the outside world and economic development; attach importance to developing a processing industry with a view to making more highly sophisticated processed goods, with electrical machinery, food, and textiles as primary concerns; strive to develop new and high technology; accelerate the adjustment of asset stock; vigorously encourage the tertiary industry, while emphasizing the development of tourist resources and speeding up the development of scenic spots and landscapes to increase the state's income.

This symposium was jointly convened by research centers of the six provinces in central China with the support of the State Council's Development Research Center. Economic experts and scholars from the Chinese Academy of Social Sciences and relevant ministries and committees of the central authorities attended the symposium.

Problems in Developing South, Southwest Noted

HK1306072592 Beijing RENMIN RIBAO
in Chinese 4 Jun 92 p 4

[Article by Qian Liren (6929 2621 0088): "Probing Into Several Questions Concerning Regional Planning of Some Southwest, Southern Provinces, Regions"]

[Text] Planning the economy of large interprovincial or interregional areas in line with the thought of connecting the economic links and opening passages to the outside world is an important step in enlarging the degree of reform and opening up and stepping up economic development. The first step that has been taken is the regional planning of some southwestern and southern provinces and regions. Not long ago, Vice Premier Zou Jiahua and leading comrades of various provinces and regions,

including Guangxi, Guizhou, Yunnan, Sichuan, Guangdong, and Hainan, met in Beihai, Guangxi, for discussions, and pointed out six economic advantages of this region: The geographical advantage of its sea and land passages to the outside world; the advantage of its agricultural, forestry, and plant resources; the advantage of its abundant energy and nonferrous metal resources; the advantage of its inland [san xian 0005 4848] industry and technological foundation; the advantage of its comparatively low labor costs; and the advantage of its tourist resources. [Footnote 1] [JINGJI RIBAO 24 May 1992]

This author has just returned from a visit to four provinces in the above-mentioned region. He saw that linking the economies of the several southwestern and southern provinces and regions so that they can supplement one another and gear themselves to overseas markets is really an important step to strengthening the vitality of this region and the whole country, thus seizing the extremely good opportunity at the present time. Moreover, he felt that to implement this strategic layout, it is necessary to resolve numerous new problems in reality. In the following, we mainly raise two questions for exploration:

1. *Following the enlargement of China's opening to the outside world, international market competition has spread from coastal open areas to inland areas.* Whether aware or not, inland areas are in fact faced with more and more acute international competition. Regarding the southwestern region's advantages in agriculture, forestry, plant resources, and nonferrous metals as mentioned above, only when product quality and costs reach an internationally competitive level can the potential advantage be really translated into economic strength. Of course, low labor costs is a favorable factor, but it seems far from enough. It is also necessary to make efforts to expedite technological progress and improve processing levels.

Here we are going to give two examples, one for farming and the other for nonferrous metals.

As regard oil-bearing crops, Guizhou's rapeseed is a great advantage, which helped a great deal to alleviate the shortage of edible oils a few years ago. However, it has been overstocked and unmarketable in recent years. In the meantime, China imported over 1 million tons of palm oil from Malaysia last year. China's palm oil consumption now accounts for more than 10 percent of total edible oils. [Footnote 2] [JINGJI RIBAO 25 May 1992] In Guizhou's Zunyi, which produces a great deal of rapeseed, a city party committee comrade told this author: Several years ago, the state assigned the task of rapeseed planting as if it were a political task. We have since vigorously promoted a set of new farming techniques, including the caring and transplantation of young rapeseed plants, thus raising the average per-mu yield of rapeseed from some 75 kg to approximately 150 kg; and some even yield as much as 200 kgs. At present, there are large quantities overstocked and this year's

purchasing price will probably be lower than last year's. If this problem remains unresolved, our oil-bearing crop farming, which we have worked hard to develop, will suffer serious blows, and the peasants' initiative for production will be greatly dampened. They hope the state will help them through policy means.

It seems there are many reasons for the overstocking of oil-bearing crops while large quantities of edible oil are being imported, but the most fundamental question probably lies with international competition. The Central Bank of Malaysia annual report states: The per-ton price of Malaysia's palm oil for 1992 will probably rise from 837 Malaysian dollars (\$322) to 850 Malaysian dollars (\$327). [Footnote 3] [ZHONGHUA GONGSHANG SHIBAO 22 April 1992] We work out from this that the price for each kg of palm oil is 32.7 U.S. cents, or approximately 1.8 yuan (or 0.9 yuan per ½ kg), which is far lower than that of edible oils on China's home market. Moreover, palm oil has a higher nutritional value and can be directly used for food processing without having first to be refined. [Footnote 4] [JINGJI RIBAO 25 May 1992] Furthermore, it is probably more convenient for coastal areas to import it from other countries than purchasing oils from inland areas. All these factors added together will probably cause China's food processing industry, which is operating more and more according to economic laws, to import palm oil rather than purchasing oils from at home.

This example shows that given the excellent situation of expediting reform and opening up, if we lack the international competitiveness, it is not necessarily possible to bring into play some advantages of inland areas, or it is even possible that we may be in danger of losing them. Even if the state adopts some preferential policies, they may only be transitionally effective and cannot thoroughly resolve the problem. Comrades from Zunyi, Guizhou said they are organizing scientific and technological forces to improve and deepen the refining processes of rapeseed oil. It seems that only by enhancing the depth of refining and lowering costs so that it offsets the prices of imported oils can the problem be thoroughly resolved.

Another example concerns aluminum. Guizhou is rich in aluminum resources. The Guizhou Aluminum Factory has very high-level equipment and management and produces quality aluminum products. The P1020 aluminum ingot has already been registered in the London Metal Exchange. China's coastal areas need large quantities of aluminum products for its auto, telecommunications, and construction industries, and others. Here we also encounter the problem of international market prices. The closing price, as bid by purchasers, of "Aluminum A00" was 9,300 yuan per ton on the Shenzhen Nonferrous Metal Exchange. Due to the economic recession of Western countries, aluminum stocks on the international market increased sharply, aluminum's price became weak, and the per-ton price of spot aluminum decreased from approximately \$1,500 in early

1991 to \$1,100, or some 6,000 yuan, in late 1991. [Footnote 5] [JINGJI RIBAO 10 February 1992]

As for the price of aluminum oxide, Guizhou Aluminum Factory comrades told this author that its per-ton price on the international market is approximately \$150, or a little less than 900 yuan, while the per-ton price of aluminum oxide on China's market reached 2,300 yuan per ton at one time, but has now decreased to below 1,500 yuan; and the planned allocation price also reaches 1,000 yuan.

There are many reasons China's aluminum price is higher than that on the international market. Comrades of the Guizhou Aluminum Factory particularly mentioned the questions of power consumption and high electricity charges. To refine one ton of aluminum, the factory consumes approximately 14,000 kilowatt/hours [kwh] of electricity. This is up to the country's advanced level. However, the world's advanced level only consumes 13,000 kwh. The world's average power consumption level for industrial purposes is less than 2 U.S. cents, while China's is approximately 3 U.S. cents. They [comrades of the factory] showed concern about whether or not electricity charges would be raised and said that if electricity charges increased, the aluminum industry would have more difficulties.

A report says that by strengthening management, consolidating scientific and technological development, and reducing costs, the Zhengzhou Aluminum Factory is coming near the cost of aluminum on the international market. The report particularly mentions this: "From the beginning, the aluminum oxide industry wished the state to adopt policies to limit imports to protect home-made aluminum oxide. However, they gradually came to know from practice that to seek maximum profits, aluminum production enterprises inevitably looked for cheap and quality raw materials, and that administrative interference would be unable to stop them from doing this. Given the same quality, if the costs and prices of their own products are uncompetitive on the international market, their products are not only unable to enter the international market but also will be beaten on the home market. [Footnote 6] [JINGJI CANKAO BAO 18 March 1992] This also applies to the southwestern region.

It is said that the price of rubber produced in China is higher than that on the international market, so it happens that products are overstocked while large quantities of rubber are imported. This is the same in nature as the two examples mentioned above.

Evidently, to really bring into play the advantage of the rich resources of inland regions, it is necessary to develop [our products] by employing advanced scientific, technological, and management methods, and by lowering costs and improving quality. Only by attaining an international market competitiveness can they be firmly marketable on the home market and then enter the overseas markets. If they were protected against or

less liable to impact from the international market by relying on the state's protective policies, they would have less and less such conditions, although they do not perish immediately altogether. Faced with the new problems mentioned above, which have arisen from the expediting of reform and opening up, relevant enterprises or localities must, of course, make efforts. But this alone cannot thoroughly resolve the problem. The state must also help resolve it by means of the macroeconomic structure, operational mechanisms, and relevant policies.

2. The question of bringing into play the advantage of tourist resources. This region has long enjoyed worldwide renown for its rich tourist resources. Whether the tropical coastal scenery, the famous inland mountains and rivers, or waterfalls and caves; the ancient cultural relics of the Han nation, or the colorful and beautiful scenery in various ethnic minority areas; or the unique scenic spots and historical sites which reflect the merger of Chinese culture with exotic cultures, are wonderful attractions to overseas tourists.

To utilize the potential of these tourist resources, in addition to developing the scenic spots themselves and improving tourist facilities, we need two important external conditions: First, we need to ensure a relatively steady source and large numbers of tourists. If only a few and discontinued number of overseas tourists visit a scenic spot, it is obvious that it brings no economic returns. The second condition, which derives from the first, is to open the most convenient air passages from major tourist cities to where overseas tourists will come from (the air distances between the major tourist cities of southwest and south China and other countries are comparatively short. Moreover, most of them have already or are going to construct airports for flight services). Since overseas tourists normally make the best of their weekend vacation which lasts for two to three days, or their fixed annual holidays for sightseeing and resting, they will reduce as much as possible the time consumed by air, ship, or car travel. The southwestern region has many scenic spots, which are scattered in various places. However, their overseas traffic or provincial and regional traffic do not meet the demand for convenient and fast travel for overseas visitors. Therefore, it is difficult to ensure a continued, vast number of visitors. If this contradiction remains unresolved, the advantage of tourist resources will remain mere words or on paper only and cannot be translated to an actual economic force. However, in developing tourism, we must not wait for the total improvement of traffic facilities. One of the possible solutions to the problem is: Start with one or two major cities (areas) in a province whose scenery is the most concentrated and most fascinating, and open direct regular flights to other countries (such as Hong Kong or other neighboring foreign cities from where a fairly large number of visitors come). Moreover, open direct flights linking other important tourist cities on the mainland so that overseas tourists can reach their cities of destination the same day so they can do sightseeing in special scenic spots in two or three

days before returning straight to where they departed from or going on to other mainland cities. Furthermore, we should give effective and special publicity to these scenic spots to greatly enhance their popularity and attract more and more overseas tourists. In so doing, we can further bring along the development of other tourist spots in the province concerned.

At present, overseas tourists visiting inland China are often concentrated in several cities whose popularity is comparatively high, such as Xian and Guilin. Moreover, it is very difficult for them to get air-tickets during the high season. If it is possible to open up several comparatively popular tourist cities in southwest and south China, we will be able to both enlarge tourism and relieve the pressure of major scenic cities. To achieve this, the civil aviation industry in the south and, especially in the southwest, needs to be developed rapidly. Of course, this cannot be achieved by the locality concerned alone.

Tourism is a tertiary industry, which does not engage in the direct manufacture of industrial or agricultural products. However, it entails relatively little investment, requires low costs, and brings comparatively quick results. It can play an extremely important role in accumulating funds and in bringing about foreign economic and cultural exchanges. Developing countries often regard tourism as an extremely important industrial sector. In the case of Turkey, its tourism has developed rapidly over the past decade and it accounts for 9-10 percent of its national income now. It is expected that it will receive 6.5 million overseas tourists this year, which is 11.8 percent of the country's 55 million people. There is no need to mention Egypt, whose tourism is one of the country's four major pillar industries. As for some southwestern and southern provinces and regions, which need large amounts of funds, development of tourism is not indispensable, but is important and worth making efforts to bring in economic returns.

FINANCE, BANKING

Thoughts on Developing Securities Markets

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[Article by Xie Wei (6200 5898), affiliated with the Finance, Commerce, and Commodities Institute of the Chinese Academy of Social Sciences, edited by Zhao Yixin (6392 0001 2450): "Thoughts on Certain Matters Involved in Developing China's Securities Markets"]

[Excerpts] [passage omitted] I

[passage omitted] As China's securities markets are still in an initial stage of development, we will assess their status quo mainly from a qualitative perspective, which can be analyzed generally in the following two areas:

1. The major players in securities markets: The government, financial institutions, enterprises, and individuals are the major players in China's securities markets as follows: 1) The government has played the major role in developing securities markets. It was the major fund raiser in the first national treasury bond issue when China's securities markets first began to develop in 1981. By the end of 1990, national treasury bonds worth 103 billion yuan accounted for over 90 percent of the negotiable securities that had been issued throughout China, with national treasury bond transactions of about 15 billion yuan accounting for 80.27 percent of the 18.7 billion yuan worth of negotiable securities transactions that had taken place. (Footnote 1) (JINRONG SHIBAO 11 Dec 91, p 1) But the government as the major market player has also undergone a transition from nonstandard to relatively standardized actions. While national treasury bond issues were forcefully popularized through government authority at first, which gave them a certain extra economic mandate, the last two years of changes in the economic climate (the interest rate reductions on bank savings during the period of improvement and rectification in particular), as well as the enhancement of individual financial awareness, have gradually turned national treasury bond issues from mandatory to voluntary, which has begun to standardize the government's market actions. 2) Financial institutions have always been the major force in securities markets. As this has been proved by the history of securities market development in all countries throughout the world, it also applies to China's financial institutions. The various types of securities companies and trust and investment corporations that have acted as agents in issuing national treasury and financial bonds, as well as providing money market services, show that financial institutions are the key driving force in securities market development. By the end of 1989, China had 159,251 financial institutions, of which 96,424 were state banks (including insurance companies), with 1,970,905 personnel, of whom 1,423,541 worked in state banks (including insurance companies). (Footnote 2) (*China Financial Yearbook*, 1990, p 189) While China's financial institutions have developed in scope to the point where they would normally be able to meet the needs of China's current securities market development, they are still unable to either act as the major players in driving securities market establishment or operate according to a market orientation. As special state banks have not become economic entities with "independent decisionmaking power, sole responsibility for both profits and losses, risk-taking responsibility, and funding balance," they still are held responsible to a certain extent for government directive policy business. 3) Strictly speaking, the true driving force in securities market development should be enterprises, through which the necessary securities market goal of a rational disposition of resources should be mainly realized. But as China's enterprises have issued only 17.483 billion yuan worth of bonds and 4.162 billion yuan worth of stocks, they still occupy a very insignificant place in our overall market development. (Footnote 3) (*Ibid*, p 71.) In particular, as most of

China's enterprises have still not truly acquired independent decisionmaking power and sole responsibility for both profits and losses, do not have the capability to assume risks, and lack the necessary motivation to raise funds in a market-oriented way (as they can solve all funding problems through bank loans), even though they issue stocks and bonds, they take almost no or extremely small risks, not to speak of the capital restraints of hardened enterprises. The holding of such securities by individuals is equal to having additional income (which is already very conspicuous in places, such as Shanghai and Shenzhen). Such nonstandard actions are enough to show that China's enterprises are not the true major players in securities markets. 4) Individuals are active participants in securities markets, as well as the key basis for securities market development and growth. Due to the influence of our traditional system and culture, the individuals in China took a doubtful wait-and-see attitude toward securities markets in the beginning, even showing a certain amount of resistance, which could be felt clearly in the first few years of national treasury bond issues. But in recent years, individuals in China have acquired a heightened awareness of financial affairs, so have become particularly eager to buy stocks and bonds. This is driven, on one hand, by the income from stocks and bonds now being clearly higher than that from other financial capital, while the risks are extremely small and, on the other, by the greater consensus among individuals about securities. In short, as the financial awareness of individuals in China is still superficial and tainted by a certain blindness in action, lacks rational thought, and fails the test of true securities market risk, individuals are similarly not the true major players in our securities markets.

2. Securities market forces: These are specifically the three of the price—interest-rate force, the competitive mechanism, and the risk-profit force. It is only the joint operation of these three forces that reflects the true impact and shows the true color of securities markets as follows: 1) The price-interest-rate force is the most basic of the securities market operating forces. It refers to the relations between interest rate fluctuation and fund supply and demand in the competitive process, and its impact is reflected in the following two areas: A) Through regulating the scope of lending and borrowing, in order to coordinate fund supply and demand, it achieves an overall value balance for the national economy. B) Through regulating the structure of lending and borrowing, it leads to a rational flow of funds and achieves a rational disposition of resources. But China's price-interest-rate force now contains rather severe defects, in that interest rates certainly cannot truly reflect fund supply and demand, the interest rate structure is irrational, and the interest rate control system is rigid. In short, there is a rather serious phenomenon of "interest rate inhibition," so that the price-interest-rate force is unable to play its proper role. 2) The competitive mechanism is the key element of market forces, with securities markets being no exception. Competition between fund providers and users on securities markets

can more effectively improve efficiency in the disposition of funds. While such competition naturally is completely subject to market rules, and does not include certain extra-rational competitive actions, the competitive mechanism in China's markets is distorted, mostly in that the competition is ineffective and destructive. If the costs of increased basic-level financial institutions are not calculated, funds are provided without regard for risk and cost, and there is mutual undermining of foundations without regard for overall interests, the result will be, on one hand, very incomplete market fund supply and demand competition and, on the other, a large-scale multiplication of distorted competitive actions, with some phenomena being even more destructive. 3) The risk-profit force is another key securities market force, whose operation is the ultimate consideration of securities investors. As to securities in general, the greater the risk, the higher the profit. While securities profits may also depend on many other factors, profits along with risks constitute a particular operating force, which becomes the key one that guides investment in securities markets. But in China, risks and profits are at two different poles with basically no inherent links, in that both low- and high-profit securities naturally hold little risk. As individuals have noted this point in securities market operations in recent years, they have usually snapped up at once the last two years of stock and bond issues. Moreover, they have been able to sit and wait for securities to rise in value (while stocks sometimes also fall in value, the decreases are controlled, so that they ultimately rebound), with basically no need to be discriminating about the amount of risk. Such high-profit and low-risk (or even risk-free) securities issues have promoted a financial awareness among residents that is both very weak and also detrimental to the healthy development of securities markets. In addition, we can also present certain supplemental proofs from a quantitative perspective. By the end of 1990, China had issued 230 billion worth of negotiable securities of all types, with 170 billion yuan worth in existence, and 18.7 billion yuan worth of transactions having taken place. Considering that our securities market development has certainly not been very long, this shows that our securities market volume has increased quite rapidly. Temporarily disregarding the quality of the securities issued, let us compare these figures to our financial capital and GNP of the time (which Western economists use as the criteria for measuring a country's securities market maturity and economic development). (Footnote 4) (See *Currency, Finance, and Economic Development* edited by Li Hong [2621 1738], CHINA FINANCE PUBLISHING HOUSE, 1988 edition.) We find that negotiable securities accounted for 8.8 percent of our financial capital and 7 percent of our GNP in 1988, which figures were 12 percent and 8 percent, respectively, by 1990. These not only are far below the relevant indicators in developed Western countries, but also are obviously still too low even in comparison to certain developing countries. This shows that China's securities markets are far from either playing the dominant role in

our economy or assuming the heavy responsibility of guiding a rational flow of funds.

The above qualitative and quantitative analyses bring us to the conclusion that not only are China's current securities markets certainly not authentic ones (people generally distinguish authentic securities markets mostly according to the rules of success from the last 300-odd years of development in Western countries, with examples of successful development of securities markets still not existing in socialist countries), but also that it will be hard for them to attain such a state in the short term. This brings up the following two issues: 1) Many comrades have been presenting tentative plans for China's securities market development recently, most of which are focused on creating a means of securities circulation. We can see from these comrades' discussions that their views imply the precondition that China's securities market forces are already quite perfected, so that the only development priority is how to expand them from a capital perspective. When the major players in securities markets are completely developed and market forces are perfected, financial capital creativity obviously implies securities market development. Moreover, such creativity must be coordinated with monetary policy, in order to be able to improve the operating efficiency of social funds. But when the major market players are nonstandard and market forces are distorted, financial capital creativity certainly cannot promote market development. Rather, it is likely to disrupt the original macroeconomic regulation and control procedures, and cause chaos in the social fund operating order. [passage omitted]

II

The basic structure of China's securities markets up to now has been a completely single-purpose national treasury bond market, whose issues and transactions account for 90 percent and over 80 percent, respectively, of securities market issues and transactions. While people have very inconsistent views about this, most conclude that China's securities market development is very unsound, as opposed to that in Western countries where stocks have evolved as the major form of securities market trading. Thus, they recommend the expansion of enterprise stock issues, putting on the market more types of stocks, and a gradual development toward more standardization. My view is that, as the unique standing in China's securities markets of the national treasury bond market was determined by a whole series of complex factors, it is very likely to be sustained for a considerable period of time, and will finally evolve into a securities market with distinct Chinese characteristics.

1. After we began to reform and open up to the outside world, China's securities markets began with national treasury bond issues. The national treasury bonds that we issued in 1981 marked the beginning of China's securities markets, after which we issued national priority construction bonds, public finance bonds, and special types of national treasury bonds in 1987, and

then national construction bonds, capital construction bonds, and guaranteed-value government bonds, all of which were national treasury bonds, in 1988. National treasury bonds were issued not only first, but also in the largest amounts, on China's securities markets. The major reason for this is that since we began to reform and open up to the outside world, the steady advances in our reform thinking about devolving authority and conceding profits, as well as the implementation of a number of other key reform measures (such as the large increases in the procurement prices of agricultural sideline products in 1979), have been intensifying our fiscal difficulties year after year. While our regulation and control capabilities have been steadily weakened, our objective economic operations have required a stronger revenue capability, which has resulted in glaring fund supply and demand conflicts. It was such a consideration that forced us to go into debt to resolve the shortage of central revenues. While this could be said to have been our original intention when we first issued national treasury bonds, such bond issues have actually speeded up our securities market development. Moreover, our discussions have also led us to discover that in addition to fund raising, securities markets also have other key functions (such as a rational disposition of resources). If securities market functions are summed up in the two general categories of fund raising and disposition of resources, then our original consideration was the first one of fund raising. So what is the current state of affairs? Our current fiscal situation is even worse than in the initial reform period, with deficits increasing year after year, so that our fiscal burdens have not decreased; rather they have become heavier each year. In light of the sustained decrease in our microeconomic efficiency, fund raising has obviously become even more urgent than at any time in the past, so that issuing national treasury bonds as an appropriate fund raising measure remains the key way to alleviate fiscal difficulties. This is a point that must be considered in China's securities market development.

2. Moreover, issuing national treasury bonds is not only to work a way out of our fiscal difficulties, but can coordinate macroeconomic regulation and control actions of state revenue and banks. The relations between state revenue and banks are expressed mainly through fund supply, with the longstanding division of labor being that state revenue was responsible for above-quota circulating funds, while banks were responsible for normal circulating funds. Since we began to reform, while banks have begun to exercise more control over circulating funds, have gradually gotten involved in the field of fixed assets investment, and have become the biggest provider of social funding, the basic distinction between Chinese and Western banks is that Chinese banks are to a certain extent government banks, which must assume policy-related tasks. This is a reality that must not and need not be sidestepped. As banks must supply circulating funds to enterprises, while also being responsible for many policy-related investments (of

course, some circulating fund loans are now also policy-related, while all fixed assets investments are not), it is hard for them not to occupy an indefinite position in fund supply. How can this be resolved? While tossing the burden back to state revenue in a return to the old order would obviously be impossible, issuing national treasury bonds, on the other hand, might bring some light out of the darkness. For both state revenue and banks, national treasury bond issues can reduce fund supply pressures while enhancing regulation and control capabilities. This is an issue in China's securities market development that must be studied in depth.

3. Regarding the development of national treasury bond markets as the key priority in our current securities market development, certainly does not negate the universal laws of securities market development. While stock markets are admittedly the major players in most mature Western securities markets, where the roles of market dominance and market forces in stock markets are brought into full play, this certainly does not mean that national treasury bond markets, which are one of the components of Western securities markets, do not operate according to market rules. As national treasury bond markets are similarly organic components of securities markets, China's current national treasury bond markets should not be overly criticized as long as their operations conform to market actions. We must not think that our securities market development pattern, which is dominated by national treasury bond markets, is distorted or out of line with universal laws, or that an accelerated establishment of stock markets is the only securities market development direction. While our current national treasury bond markets naturally contain an issue of establishment according to market rules, from the perspective of truly speeding up the pace of China's securities market development, our current national treasury bond market establishment can actually provide experience for other markets. Take the following examples: 1) As to securities management, in that all securities must be better managed, there is the absolute possibility that we can use the management experience acquired in the areas of national treasury bond issues and transactions as references for other securities issues and transactions. 2) As securities issues and transactions, along with changes in social fund orientation, involve social fund reserves and orientation, we can use national treasury bond issues as simulations for reference in stock and other bond issues. 3) As the setting of securities prices is another key securities market matter, national treasury bond market experience can help us study issues, such as the setting of prices and the coordination of existing financial capital. [passage omitted]

[passage omitted] There was a sharp fluctuation on the Shenzhen stock market in 1990, in which the prices of five public stock issues skyrocketed from their issue face value of a little over 200 million yuan to more than 800 million yuan in a short period of just two years. One stock that had gone on the market at 20 yuan a share two years before, actually decreased in value, while

increasing in price to 1.8 billion yuan. (Footnote 5) (See Lu Hanchuan's [4151 3352 1557] *Securities Market Development Must Not Be Regarded as a Financial Reform Priority*, JINRONG YANJIU No 11, 1990). It is very hard to refer to such a state of affairs as an investment market, as it could only be considered a "speculation market" with basically no rational disposition of resources involved. While such skyrocketing in price was naturally related to our lack of experience, laws, and regulations, the strange thing was that regardless of the severe control measures adopted by the authorities, the trend of rising stock prices remained irresistible. As this was far out of line with the universal laws of stock market operation, some comrades suggested the need to begin to increase the supply of stocks, by allowing more enterprises to issue them. While this would have put more stocks on the market, it would have been unrealistic in light of political, economic, and technical considerations. As expanded shareholding enterprise development and stock issues requires a cumulative process, this means that the disadvantages of stock markets at the current stage would generally outweigh their advantages. Therefore, my view is that until substantive progress is made in overall economic reform, we do not need to waste a lot of energy studying stock markets. Rather, we should actively think through bond market establishment, and consider how, lacking a stock market, to take a path of securities market development with distinct Chinese characteristics. This would be the more realistic thing to do.

III

[passage omitted] Combining securities market development with banking system reform can be considered a promising solution, with the following major points:

1. We should reform the current system of the People's Construction Bank (PCB), by upgrading it into a genuine investment bank. The PCB is responsible for a large number of fixed assets investments, and has the three major fund sources of its own funds, savings, and loans from the People's Bank of China. In fact, a sizeable part of the funds that the PCB uses for fixed assets investments comes from second loans from the central bank. As the PCB engages in long-term business, which unavoidably creates long-term possession of short-term funds, it holds large amounts of central bank funds, which are hard for the central bank to recoup and affects central bank macroeconomic regulation and control efficiency. The PCB has begun to handle savings business in recent years, in order to make up its fund shortages. While this has alleviated to a certain extent its operating difficulties, the differences in the division of labor among the various special banks has actually forced the PCB into the savings business despite the high cost and low efficiency of such business. Thus, the PCB should be urged to resolve its fund problems by issuing long-term investment bonds (three, five, or eight years), with slightly higher interest rates than on savings of the same terms, and the interest differential being subsidized out of state revenue. The central bank could then regulate

and control the PCB's funding scope based on the issued amount and securities price. Moreover, the PCB should shut down (or at least cut back on) its savings business, and focus its energies on the field of fixed assets investments.

2. We should reorganize our rural banking system, by developing an agricultural investment bank. While the quantity and quality of agricultural investment are vital to agricultural stability and development, and there are many agricultural investment channels, their efficiency is not ideal, so that there is a pressing need for a special institution to make overall plans for agricultural investment. Thus, we should consider establishing an agricultural investment bank, which would specialize in the development of basic agricultural investment and rural policy service organization. In addition to receiving agricultural funds from responsible departments, this agricultural investment bank would also raise funds mostly by issuing various types of farming and forestry bonds, also with slightly higher interest rates than on savings of the same terms. In order to make these bonds more attractive, the government could personally guarantee them. This could shift some idle funds from rural areas and even the whole society into the building of the agricultural infrastructure. Meanwhile, the existing Agricultural Bank (AB), which actively supports rural township industries, rural commerce, and other agricultural operations, should regard profitmaking as its key operating objective.

3. We should reexamine our existing professional division of labor. The Industrial and Commercial Bank of China should devote its energies mostly to urban savings business, and stop issuing financial bonds. The AB should focus its efforts mainly on rural savings business, and also stop issuing financial bonds, with its rural long-term investment business being taken over by the agricultural investment bank through issuing bonds. The PCB should stop handling savings, and raise funds mainly through issuing bonds. Such a reorganization of our professional division of labor would help all special banks to bring their respective advantages into full play and improve their fund operating efficiency, while helping the central bank to enhance its regulation and control capability.

4. Through increased bond issues and a redivision of business, we could achieve the following goals: 1) the above reforms could sharply increase China's national treasury bond issues, which would make higher and greater demands for the establishment of national treasury bond markets, and objectively contribute to China's securities market development; 2) these reforms would help to resolve the fund conflicts among China's special banks, reduce much of the illegitimate competition, standardize and solidify fund sources, and thus, help to improve macroeconomic fund operating efficiency, which is our most pressing current issue; 3) the reforms would help to improve central bank regulation and control, by bringing it gradually into line with market rules; 4) Reform will reduce the fund pressure on both

state revenue and the central bank, help to make their regulation and control more rational, and enhance their joint regulation and control capability.

INDUSTRY

Official Reports Increased Automobile Production

*OW1906165892 Beijing XINHUA in English
1321 GMT 19 Jun 92*

[Text] Beijing, June 19 (XINHUA)—China's automotive industry surged ahead—with production jumping 46 percent and sales 36.7 percent—in the first five months of this year, an industry official said here today.

Wu Ziqiang, vice-president of the China National Automotive Industry Corporation, told a press conference prior to the 1992 automotive exhibition that, stimulated by the rapidly growing economy, the industry manufactured and sold 340,000 motor vehicles in the January-May period.

The exhibition, to be held from June 25 to 30, will be participated in by more than 500 auto makers from 19 countries and regions.

Since April last year, he said, the auto industry has been brisk in both production and sales. He predicted that the industry will set a record by turning out 800,000 motor vehicles this year, some 13 percent more than last year.

Except for a few heavy-duty trucks and light-duty vehicles, passenger cars, buses and leading-brand products have a very good market. Output of passenger cars, in particular, is expected to reach 120,000 this year.

Meanwhile, he said, imports of motor vehicles have been brought under control. Now, about 20,000 cars are imported yearly, partly through barter trade and border trade with Russia and East European countries.

Wu said, "Auto prices are two-thirds higher in the domestic market than the international market. There are 120 auto enterprises in China but no large-scale production."

He called for the government to give more financial and material support to the industry. At the same time, he suggested the state cut tariffs and taxes, and organize mass-production.

To meet new challenges, he said, the industry will make extra efforts to improve product structure and shift its focus from truck production to passenger car production in a bid to boost international competition and cooperation.

In the past few years China has spent 800 million U.S. dollars importing 170 items of advanced automobile manufacturing technology from Austria, France, Germany, Japan, Italy and the United States, and launched 122 joint ventures, which have reported good progress so far.

Capital Iron, Steel Complex Casts Roller Frame

*OW2506050492 Beijing XINHUA in English
0439 GMT 25 Jun 92*

[Text] Beijing, June 25 (XINHUA)—The Capital Iron and Steel Complex has recently succeeded in casting China's biggest roller frame with 400 tons of molten steel.

The frame which measures 10.75 meters in length and 4.65 meters in width is the key part for the continuous hot rolling mill. Only a few countries such as the United States and Russia are able to manufacture the giant frame.

The frame was cast on May 5. After being finished, the giant frame was inspected by Chinese and foreign metallurgical experts on June 13. The experts said that the success of the frame means that Capital Iron and Steel has reached the world's most advanced level in this field.

CONSTRUCTION

Minister on Quickening Construction Industry Reform

*HK2206005292 Hong Kong CHING CHI TAO PAO
in Chinese No 23, 15 Jun 92 p 10*

["China Economic News" article: "Faster Pace of Market Reform in Construction Industry Urged"]

[Text] Construction Minister Hou Jie said that it is necessary to quicken the construction industry's reform pace; establish an operational mechanism complying with market economic development; and augment macroscopic tuning, control, and administration. The chief contents are:

1. Quickening the pace in turning housing projects into commodities. To implement the commodity economy, it is primarily necessary to view construction products as commodities. In price fixing of construction commodities, on principle, it is necessary to fix prices based on cost plus taxes and profits.

2. Construction industry reform must be conducted synchronously in a whole range with reform in related production materials, labor service, monetary, technological, real estates markets so that a complete, perfect, open, highly efficient, and orderly construction market system will take shape as early as possible.

3. Pushing forward reform of the bidding system. All projects that meet conditions should enter the market to select design and building units through fair competition in bidding.

4. Taking an active part in pushing the projects supervision and administration system. It is necessary to implement effective control in investment of projects in the

process of construction, building period, quality, and cost to create the best economic results for national construction.

Official Discusses Three Gorges Project

*HK1906063092 Beijing QIUSHI in Chinese No 6,
16 Mar 92 pp 18-23*

[Article by Qian Zhengying (6929 2973 5391), vice chairman of the Chinese People's Political Consultative Conference National Committee and former minister of water resources and power: "My Understanding of Three Gorges Project"]

[Text] The feasibility report compiled from the Three Gorges Project appraisal results has been examined and passed by the State Council and will soon be submitted to the National People's Congress [NPC] for examination and approval. Intensive work has been going on for more than five years since the appraisal started in July 1986. As a sponsor of the appraisal work, I have many impressions and now talk about my personal understanding of three issues.

I. Understand the Significance of the Three Gorges Project From the Perspective of Historical Evolution of Rivers and Lakes

There have been quite a lot of discussions from various circles on the specific benefits and significance of the Three Gorges Project in terms of antiflood benefits, power generation, and shipping. Through many years of appraisal, I believe that the fundamental significance of the Three Gorges Project should be further understood from the historical evolution of rivers and lakes.

Seas changes into mulberry fields and mulberry fields into seas—this is a manifestation of the movement of the earth's surface layer and is independent of man's will. As for the Chang Jiang, the birth, growth and demise of ancient Yunmeng Marsh and today's Dongting Hu are vivid examples.

The Chang Jiang has a drainage area of 1 million square km above the Three Gorges, mainly in the mountainous areas between the Kunlun Shan and the Wushan mountain range. Of the 800,000 square km of drainage areas below the Three Gorges, there are more than 120,000 square km of alluvial plains on both banks formed of silts brought down by the Chang Jiang. When floods and rainstorms in mountainous areas in the upper reaches dash down the Three Gorges and enter the alluvial plains in the middle and lower reaches, there must be a flood regulating place. Before the Eastern Han Dynasty [25-220], Yunmeng Marsh, or the Jiangnan Plain today, was responsible for regulating flood water in the middle reaches of the Chang Jiang. In ancient times, the waters of the Chang Jiang entered Yunmeng Marsh after flowing out of the Three Gorges. At first, there was initially no distinction between rivers and lakes, and the river waters flowed freely in the lakes and ponds of Yunmeng Marsh, and the silts brought along by river

waters were gradually deposited into the Jing Jiang Delta. After the Southern Song Dynasty (1127- 1279), the Jing Jiang Delta continued to expand and became the Jiangnan Plain, and a river course formed at its southern edge, which is today's Jing Jiang. After the formation of the Jiangnan Plain, with more lands being reclaimed and developed, the river dikes were gradually connected and strengthened and, during the reign of Jiajing of the Ming Dynasty (1368-1644), the Jing Jiang Dam took shape at its present form. Since then, the Yunmeng Marsh, which was responsible for regulating flood waters from the Chang Jiang has evolved into the Jiangnan Plain protected by the Jing Jiang Dam, and the Yunmeng Marsh has become a term in China's history and geography.

With the shrinking and demise of Yunmeng Marsh, the Dongting Hu on the southern bank of the Jing Jiang gradually took shape and developed. When the Yunmeng Marsh was still there, the Dongting area was an area of flatlands dotted with a network of rivers and lakes, and the four rivers of Xiang, Zi, Yuan and Li, which are today called the Dongting river system, were tributaries flowing into the Chang Jiang before the Eastern Han Dynasty. By the time of the Eastern Jin Dynasty [317-420] and the Northern and Southern Dynasties (420-589), due to the expansion of the Hanjiang Plain and the shrinking of the Yunmeng Marsh, the water level of the Chang Jiang rose gradually and floods began invading the Dongting Hu. The two catastrophic floods of the Chang Jiang which happened in 1860 and 1870 (during the reigns of Xianfeng and Tongzhi in the Qing Dynasty) rushed out of the Ouchi He and Songzi He on the southern bank of the Jing Jiang and caused an enormous amount of flood waters from the Jing Jiang to enter the Dongting Hu. The flood waters entering the lake also brought huge amounts of silt, preparing the demise of Dongting Hu while helping develop it. According to an estimate by the 1825 maps, the area of Dongting Hu was about 6,000 square km at that time with a volume of 40 billion cubic meters. Afterwards, the lake bed rose gradually due to the silts and large areas of islands and beaches emerged from the water, and the lands were reclaimed for cultivation, causing the area and volume of Dongting Hu to decrease rapidly. In 1949, the area of lake surface was down to 4,350 square km with the volume down to 29 billion cubic meters; in 1983, the area continued to drop to 2,691 square km and the volume to 17 billion cubic meters. The once 800-km-long Dongting Hu has now become a lake divided by large areas of flatlands into three lakes, namely, Muping Hu, Southern Dongting Hu, and Eastern Dongting Hu, connected by flood channels. Following the Yunmeng Marsh, the Dongting Hu is shrinking and dying.

The population living on the Hanjiang Plain on the banks of the Jing Jiang and the Dongting area has reached 15 million with 23 million mu of cultivated lands, and these areas have become an important industrial and agricultural production base in our country. With the constant shrinking of the Dongting Hu, the question of how to regulate flood waters from the Chang

Jiang has always been a difficult one in harnessing the river since the Qing Dynasty. For 100 years before the founding of the PRC, there were no other options except by painstakingly repairing and raising the dikes. After the founding of the PRC, a comprehensive antiflood plan was formulated. This includes: strengthening water and soil conservation in the upper reaches, building reservoirs on tributaries as well as the mainstream, raising and strengthening the dikes in the middle and lower reaches, and sacrificing parts of the flatlands on both sides of the river for temporary storage of excessive flood waters. During the past four decades, we have done our best to raise and strengthen dikes, raising the discharging capability of the Jing Jiang (including diversion of floods to Dongting Hu) to over 60,000 cubic meters a second. This, plus the temporary flood diversion on the plain and the antiflood, and flood-relief measures, makes it barely possible to resist the flood peak of 80,000 cubic meters per second. However, according to historical records of the last 800 years, eight flood peaks in the Jing Jiang exceeded 80,000 cubic meters per second with one reaching 110,000 cubic meters per second in 1870. If a flood peak similar to the 1870 one occurs again, the dikes on the southern bank of the Jing Jiang will certainly be breached, and flood waters will make a clean sweep across the protective embankments of Dongting Hu. As the Dongting Hu's ability to divert and store flood water has markedly decreased as compared with 1870, the northern dike of Jing Jiang still faces the danger of being breached. Once the dike bursts, the mighty torrent with a peak of a dozen meters or so in height will directly rush down the Jiangnan Plain, and Wuhan City will be under serious threat. In short, whether the Jing Jiang overflows in the south bank or on both banks, it will cost a tremendous loss of lives and injuries, and the losses will greatly exceed last year's flood damages in the Hui He and Tai Hu. This will not only be a devastating disaster to Hunan and Hubei provinces but also affect the overall economy of the country. The danger increases with the continued shrinking of Dongting Hu.

Through decades of study, a key measure to control the Chang Jiang is to use modern science and technology to build a man-made reservoir in the Three Gorges, and obtain a storage capacity of 40 billion cubic meters, including an antiflood storage capacity of 20 billion cubic meters, at the cost of flooding several thousand mu of land. These storage capacities exceed that of Dongting Hu. By using sluice gates to control water storage and discharge in the reservoir, the ability and reliability in regulating flood waters will far exceed Dongting Hu's natural diversion of flood waters, and the amount of flood waters and silts entering Dongting Hu will be greatly reduced, thus prolonging the life of Dongting Hu. With modern science and technology, we can control the deposits of silts in reservoirs and maintain effective storage volume for a long time. With modern science and technology, we can exploit the huge water energy resources of the Three Gorges and use the output of hydroelectric power to make up for input, thus making the building of the reservoir economically feasible. With

modern science and technology, we can avoid interrupting shipping during reservoir construction and, to some extent, improve shipping.

A general survey of the history of development of nature and society in the middle reaches of the Chang Jiang shows that we should and can only resort to modern science and technology in striving for initiatives in the evolution of rivers and lakes, and remove the serious hidden dangers for the people living in the middle reaches of the Chang Jiang. I believe this is the most essential significance of building the Three Gorges Project.

II. Different Opinions Promote the Deepening of Understanding

For several decades, the Three Gorges Project has attracted attention both at home and abroad, and opinions vary on the project. At the start of appraisal, after collecting and studying various opinions, we summed them up into two major classes: First, how to build the Three Gorges, including whether it should be first-class or second-class exploitation, as well as various designs for water storage. Second, whether the Three Gorges should be built, including whether it is necessary to prevent floods; should the harnessing of Hang Jiang begin from the upper reaches to the lower reaches and from the tributaries to the mainstream; whether the Three Gorges is technically feasible; can the national power afford it economically; can people be resettled; whether there will be serious disadvantage to the ecological environment; and so on.

In view of the above-mentioned questions of two different natures, appraisal work must be divided into two phases. First, select a representative program for the building of the Three Gorges, and then study the overall feasibility of the plan and work out an alternative plan equal or similar to the representative program in terms of efficiency, and compare the pros and cons of building the Three Gorges project and building it sooner or later.

The appraisal work on the Three Gorges is conducted by extensively soliciting different opinions, and it is those different opinions which promote the deepening of understanding and push forward the harnessing of Chang Jiang. Now I present the following issues to show what I have gained in terms of ideological understanding and work.

1. Reappraise and reselect the designed storage level of the Three Gorges reservoir

The designed storage level of a reservoir is a major comprehensive indicator in the building of a reservoir, and it determines the scope and benefit of the project. It goes without saying that the higher the storage level, the larger the storage volume, and the greater the benefit in terms of flood prevention, power generation, and shipping. However, technical problems will increase correspondingly and the damage caused by inundation will also be greater.

Based on past research results, we decided through consultation to select a water level from 150 to 180 meters above the sea. Before the appraisal, many former colleagues from the Ministry of Water Resources and Power and I favored selecting a relatively low water level, i.e., 150 meters. The reason at that time was that fewer people need to be relocated, that the question of silt deposits is simpler, and that as the backwater of reservoir is below Chongqing, the deposit of silts will not affect Chongqing. But our proposal for a lower water level was opposed from two sides. First, as the water level is lower, which results in an inadequate antiflood storage volume, the reservoir will have to be overstored temporally during an extremely large flood to ensure the safety of the lower reaches. This will require some people living above the reservoir area to be relocated temporarily and thus make them feel insecure and the people in the lower reaches also fear for inadequate guarantees against floods. Second, as far as Chongqing city and shipping are concerned, as the benefits of improving shipping cannot extend to Chongqing, this is seen as affecting the overall interests of shipping. The two different opinions were locked in a stalemate until the start of the appraisal and failed to reach a common understanding.

During the appraisal, authoritative and representative experts teams were organized to repeatedly and thoroughly study the question of silts and resettlement of people. The conclusion from the two experts teams was that, if the designed water storage level was raised to 175 meters, they were sure that the related questions of silt and relocation of people could be solved. The conclusion of the two teams dispelled our misgivings, and changed our opinions. In the end, all the expert teams jointly approved the water level plan: The water storage level is set at 156 meters at the initial stage, and this will be conducive to the resettlement of people and make it possible to check the effects of silt deposits; the final water storage level will be set at 175 meters, which will comprehensively meet the need of flood prevention and shipping and increase the benefits of power generation.

2. Prudently Calculate Investment in the Three Gorges

Will investment in the Three Gorges Project become a "bottomless pit"? This is the most critical question raised during the appraisal, and it reflects the concern of the broad masses. Indeed, after going through twists and turns in past economic constructions and entering a path of stable development during the last 10 years, everybody is afraid of another "reverse." In the past, in order to get some projects to take off, investments were unrealistically reduced but, once the projects took off, various items of funds were immediately increased. People hated such a practice, calling it a "fishing project." The base of the Three Gorges investment is very large and, if it cannot be contained in the future and becomes a "bottomless pit" of the national economy, the consequences will be unthinkable! In previous protracted work, we members of the appraisal leading group were deeply aware of these problems, and realized that the responsibility was tremendous.

While analyzing why the budgets of some projects were greatly exceeded, the primary factor was the lack of preparatory work at the initial phase, particularly when there was no clear idea about the geological conditions and, when a major geological defect was found after the foundation was dug up, the scope of the project increased substantially. The geological conditions at the dam site of the Three Gorges project are fairly good after a long time of surveys and explorations. This is its favorable condition. The questions of landslides at the reservoir embankments and induced earthquakes raised during the appraisal were all given definite and unanimous answers by geologists and seismologists. However, the Three Gorges Project is, after all, a very big one, and some unpredictable factors are bound to emerge during future construction. Therefore, we repeatedly stress the need for proper leeway in calculation of project scope and investment. In addition to the investment on the core project, the cost of the Three Gorges Project includes resettlement of people and a power transmission project, and experts in related fields have been invited to conduct a detailed check. Up till now, no major problems have occurred on the estimation of static investment. That is to say, based on the prices of 1990, total investment in the Three Gorges Project is 57 billion yuan, including 29.8 billion yuan for the core project and 18.5 billion yuan for the resettlement of people, as well as 8.7 billion yuan for power transmission project. The time limit for the project is divided into three phases: Three years for construction preparations, nine years from the construction of the core project to the generation of power by the first batch of generators, and six years from installment of successive generators to completion of the whole project.

Major differences exist in the calculations of dynamic investment. With static investment as the base, we have to take into consideration the interests of loans and the rate of inflation for all construction projects, and calculate overall demand for funds—that is dynamic investment. According to the calculation method and criteria approved by the State Planning Commission, if the Three Gorges Project is to start in the near future, its overall demand for funds will be roughly 150 billion yuan, including over 60 billion yuan before electricity is generated. After electricity generation, the funds can be gradually repaid from the income of the project itself and the Gezhou Dam, and in the second year after the completion of the whole project, all the loans plus interest will be repaid. Due to differences in the assumed loan interests, particularly the rate of inflation, differences several times the original can occur in calculating dynamic investment. We can only invite economic and financial experts from authoritative departments to give appraisals. They believe that as the loan interests of the Three Gorges Project are repaid from its incomes during the later phase of construction when the project begins to generate electricity instead of using investment for payment, it is not a genuine demand for funds. As there are both input and output of the Three Gorges Project, the rising prices of materials for the input will cause the

rising prices of generated electricity, and therefore, the factors of price can be neglected in making economic appraisal.

During the appraisal, we realized that as the average water volume of the Three Gorges of Chang Jiang reaches 450 billion cubic meters, it can be turned into an average of 84 billion kilowatt-hours of electricity annually after the dam is built. Compared with the hydro power stations in other similar rivers (ordinarily an average annual water volume of several dozen billion cubic meters with an average annual power generation of several billion kilowatt-hours), it has great advantageous conditions. Therefore, the cost per kilowatt is relatively low. But as the volume of the power station is very large, its overall investment is also huge. Whether such a huge amount of investment can be supported by the national economic power is a question of concern to the people of the whole country.

As for my personal understanding, in the 1950's and 1960's, I believed that the Three Gorges Project should not be launched. In the 1970's, I agreed only to the construction of the project provided that its scope was reduced. But in the 1980's and 1990's, I have come to believe that the building of the Three Gorges Project is in line with the national economic level. This can be observed from the main indicator of the Three Gorges—the power generating capability. The installed capacity currently proposed is 17.68 million kilowatts. At the end of the 1950's, the total installed capacity of the whole country was less than 10 million kilowatts; was only 20 million kilowatts at the end of the 1960's; and grew to over 60 million kilowatts at the end of the 1970's; was already over 120 million kilowatts at the end of the 1980's and is estimated to reach 240 million kilowatts at the end of the century. The generating capacity that goes into operation each year in our country is over 10 million kilowatts, and the annual investment in electricity is more than 30 billion yuan. This is incomparable in the past. Even if the Three Gorges Project is not built, other power stations will have to be built in eastern and central China. Even if the total investment of the Three Gorges Project is put into power generation, its proportion in the investment of the whole country in power generation will not exceed the construction cost of the Gezhou Dam.

3. Avoid the Adverse Impact on Ecology and Environment by the Resettlement of People

How will the Three Gorges Project affect the ecological environment? This is another major question in the appraisal. During the appraisal, by concentrating experts and scholars in related fields to conduct detailed investigation and hold full discussions, the ecological and environmental expert team led by comrade Ma Shijun, late president of China Ecological Society, put forward a comprehensive appraisal and corresponding measures. Recently, in line with the state's relevant provisions, the Environmental Appraisal Department of the Chinese

Academy of Sciences and the Scientific Research Institute on Protecting Chang Jiang Water Resources jointly compiled a report on the effects the Three Gorges Project will have on the environment, which has been examined and approved by the State Bureau of Environmental Protection. The results enable us to acquire an overall understanding on the impact the Three Gorges Project will have on the environment.

We believe, in analyzing the pros and cons Three Gorges has on the environment, more efforts should be made to study the possible adverse effects and conscientiously study corresponding measures. On adverse effects, particular attention should be paid to problems that may occur in the resettlement of people and take effective measures to avoid them.

In the course of building the Three Gorges Project, more than 1 million people need to be relocated. Half of them are residents in towns and townships, and the other half rural residents. Relocation of cities and towns generally does not alter the original production conditions for city and town residents. However, production conditions will have to be rearranged for rural residents as the reservoir will submerge 360,000 mu of cultivated lands (including 110,000 mu of paddy fields) and 750,000 mu of orange and tangerine fields. The rural people to be relocated and the lands to be submerged scatter among 19 counties and cities around the reservoir with a periphery of 2,000 km, the proportion of lands to be submerged in each county or city is not large, and no township will be submerged entirely. This is a favorable aspect. But it should be noted at the same time this is one of the most impoverished areas in the country, where indiscriminate cultivation and logging in the past has brought a grave situation to the ecological environment. If we do not have a unified plan and leadership over the resettlement of people, it will certainly encourage indiscriminate cultivation and logging and worsen the ecology and environment. From another perspective, it will also be the best opportunity to reform the local environment and help people get rid of poverty and become rich if the huge amount of investment in resettlement can be used under scientific unified planning and strengthened leadership. Therefore, resettlement of people is both a challenge and an opportunity for the area. It is understandable that the vast numbers of local cadres and masses long for the start of the Three Gorges Project.

Therefore, we totally accept the proposals by the expert teams and make clear the need to take the building and maintenance of a good ecological environment as the goal in reforming and rebuilding the areas surrounding the reservoir, change the method of compensating once and for all the people affected by the resettlement, and adopt the principle of developmental resettlement. That is to say, we should make overall arrangements for the people in terms of production and livelihood, and create conditions for the long-term development in the reservoir areas. Based on the above goal and principle, tests on developmental resettlement were conducted at selected areas, and successful and convincing results

were achieved. In the future, we should do a good job of the planning of state lands, bringing urban and rural building, resettlement project, exploitation of resources and environmental improvement into line with the overall plan. While regarding the reservoir area as a complex of natural-social environmental system, we should use the method of systems engineering to work out a comprehensive exploration plan with multiple goals and functions. The formulation and implementation of the comprehensive plan needs the participation of ecological and environmental experts. We should also set up a monitoring system to keep track and monitor the ecology and environment in the drainage areas of the Chang Jiang in order to make timely scientific predictions and adopt counter measures.

4. Promote Water and Soil Conservation in the Upper Reaches of Chang Jiang

Soon after the start of appraisal in 1986, quite a number of comrades were especially worried about the question of silts of the Chang Jiang, holding that there existed the danger of the Chang Jiang becoming the second Huang He as the erosion of water and soil would get worse in the upper reaches and the silts in the river would increase. Will there be the possibility of silting up if the Three Gorges reservoir is built under such conditions?

We conducted serious investigation and study on the subject, and believed that soil erosion was indeed worsening in quite a number of places in the upper reaches of Chang Jiang due to indiscriminate cultivation and logging. As the geological and climatic conditions in the upper reaches of the Chang Jiang differ from those in the Huang He, the consequences of soil erosion also differ. The drainage area of the Huang He is mainly the loess plateau. The earth particles washed away in rainstorms are very small and practically all enter the mainstream through gullies and tributaries. Therefore, although the average annual water volume of the Huang He is only over 40 billion cubic meters in the Sanmen Gorge, the average annual amount of silts was 1.6 billion tonnes. The upper reaches of the Chang Jiang are mainly rocky mountainous areas. After the surface soil is eroded, the remaining objects are rocks and the particles are relatively large. The majority of them piled up in valleys and tributaries, and small amounts flow into the mainstream. Therefore, the average annual water flow volume of the Chang Jiang in Yichang was 10 times that of the Huang He in the Sanmen Gorge (namely, 450 billion cubic meters) but with the average annual silts at only one third (0.5 billion cubic meters). On the question of silts in the Three Gorges, thanks to the experiences accumulated in rebuilding the Sanmen Gorge Dam in the Huang He and designing the Gezhou Dam in the Chang Jiang and the cross-reference examinations from numerous models made by silt research units from the departments of water resources, transport, and education, experts unanimously believe that it is possible to maintain the life of the reservoir and safeguard shipping for a long time. But, particular attention should be paid to the harm of soil erosion in the upper reaches of the Chang

Jiang to local people and, in a certain sense, it is more harmful than the Huang He. The surface soil in the rocky mountainous areas of the Chang Jiang is very thin, and unlike the loess plateau where there are thick layers of earth, once the surface soil is eroded in the rocky mountainous areas, it will mean the loss of production conditions for the local people, and the consequences are very grave.

Based on the above understanding, the former Ministry of Water Resources and Power submitted a report to the State Council in 1987 urging an earlier start to strengthen water and soil conservation in the upper reaches of the Chang Jiang regardless of whether or not the Three Gorges Project is to be built, and suggested that equal attention should be paid to water and soil conservation in the upper and middle reaches of the Huang He. The State Council approved the report, set up in 1988 a committee on water and soil conservation in the upper reaches of the Chang Jiang, and included the areas in Jinsha Jiang, Jialing Jiang, and Wu Jiang, where there are serious soil erosions, as well as the two banks of the Three Gorges, into the plan for key state support. In addition, the State Council also approved the building of a protective forest system on the upper reaches of the Chang Jiang.

5. Pay Attention To Building Tributary Reservoirs

During the appraisal, quite a number of comrades believe that due to the sheer size of the Three Gorges Project, reservoirs should be first built on various tributaries of the Chang Jiang to facilitate control of floods and exploitation of water resources.

In planning the drainage areas of Chang Jiang and appraising the Three Gorges Project, research was conducted on reservoirs in major tributaries of the Chang Jiang, and the conclusion was that the reservoirs on the mainstream and the tributaries are part of the overall harnessing and development of the Chang Jiang, with each having its unique role, and that they complement but do not replace each other. The reservoirs on each tributary play an unreplaceable role in guarding against local floods and exploiting local water resources. The function of the Three Gorges reservoir is, first of all, to control the 300,000 square km of rainstorm areas, which no other reservoirs on the tributaries can do, and to exploit water resources and shipping in the mainstream. In studying the feasibility of the Three Gorges project, we must guard against the tendency to emphasize the main river while neglecting tributaries.

Based on this understanding, during the appraisal, we actively supported the building of tributary reservoirs where conditions were ripe. From 1986 until now, large-scale tributary reservoirs that were launched one after another include Wanan in Jiangxi's Gan Jiang, Geheyan in Hubei's Qing Jiang, Wuqiangxi in Hunan's Yuan Shui, Dongfeng in Guizhou's Wu Jiang, Baozhusi in Gansu's Bailong Jiang (tributary of the Jialing Jiang), and Ertan in Sichuan's Dadu He. Feasibility reports that

are now being compiled and examined include Zipingpu in Sichuan's Min Jiang, Hechuan in Jialing Jiang, and Jiangya in Hunan's Li Shui.

I raised the five questions above only for reference. In short, through appraisal of the Three Gorges Project, we have further realized that water resource is an undertaking for mankind to adapt to, utilize, reform, explore, and protect the water environment, a basic industry in the national economy, and an important subsystem in the major system of development of population, economy, and environment. Different opinions on water conservation precisely reflect various aspects of the system. We should, through widely absorbing different opinions, try our best to make our understanding in line with reality and reduce mistakes in work.

III. Organizing Implementation Is a More Difficult Task

The completion of the Three Gorges Project feasibility report is only the first phase in understanding the project. It is still necessary to check, replenish, and revise our original understanding in the course of organizing implementation. The appraisal work on Three Gorges Project is a complicated systems engineering project; the organization of implementation is a bigger and even more complicated system engineering project. We must fully assess any possible difficulties in organizing implementation and must never lower our guard.

Through appraisal, we deeply understand that it is under the socialist system that a project like the Three Gorges, which transcends regions, departments and centuries, can be more likely realized. Therefore, only by genuinely giving scope to the advantage of the socialist system can we guarantee the completion of the project.

While talking on genuinely giving full play to the advantage of the socialist system, we refer to the fact that in many things in our work at present we have not really given full play to the advantages of the socialist system. To guarantee the victorious completion of the Three Gorges Project, we must guard against such an unhealthy phenomenon. For instance, since the Three Gorges Project transcends regions and departments, it requires the regions and departments involved to proceed from the overall situation in everything and highly promote the spirit of unity and cooperation, and never degenerate into any form of departmentalism. The Three Gorges project spans this century and will last into the next, and this requires leadership at all levels to strengthen rule by law and ensure the continuity of policies and plans. We should never allow politics to follow the change of personnel or alter policies and plans at will. The Three Gorges Project is gigantic in size with a long time limit, and this requires more hard work, careful organization, and improved efficiency. We should try our best to shorten the project time limit and we should never allow laxity and sluggishness and thus miss an opportunity. The Three Gorges Project will be an important project of the whole country, with huge investment and large

amounts of equipment and materials, and this requires better implementation of the principle of hard struggle and plain living, and of building the country through thrift and hard work. We should allow no waste and extravagance, call for making contributions to the key project, and prohibit the idea of taking advantage of the state. The Three Gorges Project is complicated in technology with a significant impact, and this requires strict observance of science and safeguarding of quality. We should absorb advanced technologies and management experiences from at home and abroad and never mess things up by giving wrong orders or acting recklessly in violation of science.

To this end, I raise the following proposals:

1. Basic construction procedures must be strictly observed. In the feasibility report, we propose that the capital construction procedure for the Three Gorges Project is as follows: After the approval of the feasibility report, an overall preliminary design is to be made. Based on the preliminary design approved, we should put forward the technical designs of separate projects and, after their approval, start work based on the detailed work charts. Therefore, if the current NPC session approves the feasibility report, as the next step we should do a good job in drawing preliminary plans. Work can only start after the preliminary plans are approved and included in the state plan.
2. Under the direct leadership of the State Council, we should build a powerful project commanding body responsible for issuing unified commands on the project construction as a whole and on the resettlement of people. This body should have high efficiency, work on the spot, and can exercise effective coordination and command over related departments and regions.
3. Carry out the spirit of reform, absorb advanced management experiences at home and abroad, set up a mechanism to mobilize the initiatives of the vast numbers of masses and cadres, and define the responsibility of leadership at various levels.
4. Use the progress of science and technology to guarantee the building of the Three Gorges project and promote our country's advance in science and technology through the Three Gorges Project.
5. Strengthen socialist ideological education and the building of spiritual civilization, and set up good work styles in project construction.

I believe, under the leadership of the CPC and given the socialist system with Chinese characteristics, we will surely be able to accomplish another historic task for the Chinese nation—victoriously complete the Three Gorges Project!

FOREIGN TRADE, INVESTMENT

Major Obstacles To Resuming Former GATT Status

92CE0468 Beijing GUANLI SHIJIE (MANAGEMENT WORLD) in Chinese No 2, 24 Mar 92 pp 4-11

[Article by Feng Yushu (7458 0056 5771), affiliated With World Bank Department, Ministry of Finance: "Background and Major Obstacles to China's Resuming GATT Status"]

[Excerpt] [Passage omitted]

(B) Consideration of Several Issues Regarding China's Resuming of [GATT] Status

1. Why did China not participate promptly in GATT at that time?

We should analyze this question from the perspectives of international politics and economics and the contemporary international and domestic situations.

With regard to the international situation, certain Western countries (the most representative of which is the United States) carried out blockades and isolationist policies toward New China. In diplomacy, they did not recognize the People's Republic of China. They did all they could to thwart New China's resuming its lawful membership in the United Nations. Economically, they adopted a policy of embargoes and blockades against China. Thus, at that time a key point of China's diplomacy was to strive to restore membership in the United Nations. As for joining international economic organizations related to the United Nations (e.g., IMF, GATT, etc.), that had to wait until membership in the United Nations was restored.

Domestically, China had no choice but to close its doors and carry out economic construction while faced with economic blockades by imperialist countries. The guiding ideology of economic construction was an emphasis of standing on China's own feet. Thus, foreign trade accounted for but a small portion of the national economy. In addition, at that time China's foreign trade policy was intimately connected to diplomacy. GATT stipulated most favored nation treatment; were China to participate, this would have been unsuited to China's adoption of different policies for various kinds of states. Furthermore, such differing policies for foreign trade prevented China from trading with South Africa, Israel, and South Korea, GATT member countries with which we had no diplomatic relations. Moreover, China had no understanding of GATT. We were unfamiliar with its articles. We were not very clear about the rights and obligations membership entailed.

Therefore, at the time China could not immediately participate in GATT because the international situation and the domestic policies they affected would not allow it. At the same time, under the influence of the Soviet

Union, China assailed GATT, the World Bank, and the IMF as tools of imperialist countries for economic exploitation.

2. Why does China want to apply to resume GATT status?

On 10 January 1986, Arthur Dunkel, secretary general of GATT, received an invitation from the Chinese Government to visit China. The premier of the State Council at the time represented the Chinese Government in a meeting with Mr. Dunkel and officially stated that in order to meet the needs of the policy of opening to the outside world, China hoped to restore its status as a signatory to GATT. These talks aroused interest in China and abroad. On 11 July 1986, Ambassador Qian Jiadong [6929 0857 2639] of the Chinese delegation to the United Nations in Vienna referred Mr. Dunkel to China's application to restore its status. It is the author's opinion that China's main considerations in desiring to restore GATT status were, first, the need to expand foreign trade. In 1978, the Third Plenary Session of the 11th Central Committee Meeting of the Communist Party proposed a policy of undertaking economic reform and opening to the outside world to vitalize the domestic economy. This greatly enhanced the position of foreign trade to China's national economy. After opening to the outside, the total volume of import and export trade swiftly increased, of which, trade with GATT members approximates 90 percent of China's total foreign trade. However, since China was not a GATT member, we could not enjoy certain GATT preferences in export markets. Second, the desire to fully participate in international economic activities. In 1980, China resumed its status in the International Monetary Fund and the World Bank. This brought some medium- and long-term preferential loans and technical assistance which played a positive role in promoting economic construction and opening to the outside world. China naturally is considering joining GATT in order to participate fully in international economic activities since the IMF and World Bank are closely connected to GATT so as to coordinate international economic policy. Moreover, the loans obtained largely are connected to trade. Third, to oppose trade protectionism. Greater trade protectionism on the part of Western countries has meant unjust treatment for China's export products by many GATT member states. For example, the EC places unilateral quantity restrictions on many Chinese products. Some Chinese export products are taxed by importing countries at rates higher than other countries' antidumping sales taxes. China cannot utilize GATT's multilateral trade system to effectively resolve trade disputes. China is at a disadvantage in bilateral talks since it is neither a member of GATT nor bound by its laws and regulations. Experience with the International Multi-Fibre Agreement (MFA) made China see some differences as to whether one was a GATT member, bringing China to be determined to become one. After joining MFA, China had an advantage when engaging in textile product negotiations with Western countries. Certain restrictions on some Chinese textile product exports

were lifted after negotiating. Furthermore, Sino-American trade disputes regarding textile products were rather well resolved through MFA. Fourth, to complete China's commercial information network. As a real international trade organization, GATT possesses comprehensive world economic and trade information, such as the trade policies, laws and regulations of member states; bilateral trade agreements; trade statistics, etc. It is an important place for China to understand and collect information. In addition, if China joins GATT it will be qualified to receive general preferential treatment from the United States.

2. Major Obstacles to Negotiations on Resuming Former GATT Status

The basic stand of the Chinese government in repeatedly reapplying to resume its position as a signatory country to GATT can be summed up as "three principles for resuming negotiations." First, China shall regain her former position in GATT by resuming it. Second, China commits to substantive negotiations based on customs tax reductions and concessions. Third, China seeks to enjoy similar treatment as other developing signatory countries. In the five years since China officially submitted an application in July 1987, positive steps have been taken by both China and GATT:

On 13 February 1987, the Chinese Government submitted a "Memorandum Regarding China's Foreign Trade System" to GATT. It mainly concerned: reform of China's economic system, the policy of opening to the outside world, foreign trade policy, reform of the foreign trade system, the customs tariff system, the commodity inspection system, the import and export license system, import and export commodity pricing methods, the foreign currency control system, SEZ's and open coastal cities, international economic, trade and financial organizations to which China belongs and relevant international treaties.

In March 1987, the GATT council of representatives decided to establish a special work group to review China's application. It was set up in June 1987, chaired by P.L. [?]Xi-ti-de[?]. All signatory countries were allowed to send delegates to join its work. The group's duties included: (1) reviewing China's foreign trade system, (2) drafting a protocol regarding China's rights and responsibilities in GATT, (3) arranging for China and GATT signatory countries to engage in customs tariff reductions and concessions, (4) submit a proposal to the GATT board of directors regarding China's status as a signatory country to GATT.

In 1988-89, the Chinese Government sent eight delegations to participate in work group meetings on the issue of China's application. Organized by the Ministry of Foreign Economic Relations and Trade, officials participated from the Ministry of Foreign Affairs, the Customs Office, State Planning Commission, Ministry of Finance, SEZ Office of the State Council, State Foreign Exchange Control Bureau, State Pricing Administration

Bureau, State Commodity Inspection Bureau, State Statistics Bureau, State Commission for Restructuring the Economic System, and agencies of the State Economic Commission. The meetings generally reviewed China's foreign trade system memorandum. The Chinese delegations responded to nearly 2,000 questions posed by the signatory countries.

1. A legal issue: To resume GATT status or enter anew

Before analyzing the legal issue, we should clarify two related basic facts. First, although China has been connected to GATT for more than 40 years, this fact does not mean that China tacitly approved Taiwan's withdrawal in 1950. Second, although historically there are great difficulties to resuming China's status in GATT, it is not possible to require China to enter anew. This is because GATT differs from the traditional meaning of an international organization composed of individual member countries. As the term suggests, it involves contractual agreements. Historical resumption of status refers to resuming status as a member since the founding of new China. There are major practical obstacles to this method. Legally, at the time Taiwan withdrew, it did so following GATT regulations and GATT accepted its withdrawal. If one now wants GATT to rescind a past decision, I am afraid that this will engender debates about the legal effect of GATT decisions. It is very difficult to resolve this issue left over from history. Economically, in the past four decades the economies of China and the signatory countries have changed greatly. Countries that negotiated with China on customs tariffs have rescinded tax reductions and concessions. To resolve 40 years of China's rights and obligations in GATT is also truly very thorny. For example, should China pay up more than 40 years' worth of dues? To join anew would mean asking China to enter in accord with GATT article 33. But this implies that China tacitly approved of Taiwan's withdrawal as legal and effective. Politically, this is very unfavorable for China. China cannot adopt this method of joining GATT.

It should be noted that GATT differs from some international organizations that have resumed China's lawful membership status. For example, China resumed its status in the World Bank and the IMF because conditions were there and it undertakes the responsibility to pay a share. It does not involve bilateral negotiations with other member countries. The contractual nature of GATT is that each country must undertake certain responsibilities before it can enjoy similar rights. Therefore, China must negotiate directly to resume its status in GATT to enjoy the rights of membership.

2. An economic issue: Methods of undertaking responsibilities

Any country that joins GATT must undertake certain responsibilities. It is only the methods of undertaking responsibility that differ. The practice of GATT shows that countries with centrally planned economies could use methods like Poland or Romania, which agree to

increase imports, or like Hungary, which agrees to customs tariff reductions and concessions.

Of course, if China agrees to increase imports, this would require a stronger planned economy, which would be contrary to the direction of reforming China's economic system. If China agrees to customs tariff reductions and concessions, many signatory countries would worry that the economic reform still has not created in China a market mechanism, so this method would not allow China to open its markets to the signatory states.

Whatever responsibilities China undertakes to join GATT, the matter is directly related to the vital interests of the signatory countries. Many of them welcome China's admission in principle. However, on the one hand they fear that China will hop on board. After joining GATT, China will use its most favored nation status to obtain advantages, making them unable to retaliate. On the other hand, they also hope to take advantage of China's admission, grab some real benefits, and throw open the door to China's markets.

3. The selective safeguard clause

People generally call GATT article 19 (emergency restrictions on the importing of certain products) the "safeguard clause." When a particular importing country imports a large quantity of a certain product to the extent that its own domestic production suffers serious injury, the country in question can adopt emergency restrictive measures on the imports of this product in order to help domestic industry overcome the temporary difficulty. Restrictive measures can include raising customs tariffs or increasing nontariff barriers. GATT requires adherence to two conditions when enacting restrictions. First, prior to adopting safeguard measures, the importing country must consult with exporting countries to prove that imports of this product have created serious harm or are a serious threat to its domestic industry. Second, if no unanimity of opinion is reached through consultations, or the importing country unilaterally adopts restrictive measures under emergency conditions, the exporting countries affected by the restrictions have the right to retaliate. In addition, in accordance with the most favored nation principle of GATT, implementing restrictions under article 19 should be based on the principle of nondiscrimination. That is to say, if restrictions are placed, they shall be placed on all, not just on one particular country while giving others a green light.

However, many signatory states (particularly the economically powerful) often implement article 19 restrictions on a selective basis. They independently restrict exports from certain exporting countries, constituting long-term protectionism for similar products of their own domestic industries. At the Tokyo round negotiations were held regarding the safeguard clause but no agreement was reached. The negotiations centered around whether to implement safeguard measures on a selective basis or in a nondiscriminatory way. Negotiations continue at the Uruguay round.

Although China is a developing country, the countries of the world see her in a new light. Many signatory states worry that such a huge country as China has great economic development potential. If China is not controlled prior to joining GATT, once the sleeping tiger awakens, she may "constitute a threat" within the GATT system. Therefore they emphasize that a selective safeguard clause should be signed into the protocol before reforms of China's foreign trade system and prices are complete. They seek to confine the sleeping tiger of China into a basket (a selective safeguard clause) to prevent her from making potential large volume exports of labor-intensive products.

POPULATION

Population Policies Toward Minorities Viewed

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EDITION in Chinese No 9, 2 Mar 92 pp 12-13

[Article by Hua Juxian (5478 5468 0103): "Population of Ethnic Minorities in China Increases Rapidly"]

[Text] China's ethnic minority population has been growing rapidly at a time when the economic development of minority nationality areas is making great progress. Findings of China's population census in 1990 show that Mainland China's ethnic minority population has reached 91.2 million or more, an increase of 35.53 percent over 1982, when the previous population census was conducted, and a growth rate 23 and 25 percentage points higher than that of the whole nation and that of the Han nationality population respectively; the eight years from 1982 to 1990 registered a net annual growth of more than 2.99 million in the ethnic minority population.

Minority Nationalities' Means of Subsistence Have Been Improving

The ethnic minority population has been growing rapidly since the founding of New China, the most important factor among others being that the Chinese Government has strived to develop the economy of minority nationality areas and improve the working and living conditions of the minority nationality masses.

Before the founding of New China, the masses of all nationalities lived in adverse natural environments, under poverty-stricken conditions, and with shortages of medical services and medicines. Great numbers died of starvation and illness, and the ethnic minority population stopped growing or even dropped unceasingly. There were 1.18 million Mongols in Inner Mongolia during the reign of Emperor Jiaqing of the Qing Dynasty, but there were only 0.83 million or more left when the Inner Mongolian government was founded in 1947, a loss of 0.35 million people in nearly half a century. Likewise, there were approximately 5 to 6 million Tibetans in the latter half of the eighth century, but there were only 2.7 million left in 1949, a loss of nearly half the

total population, rather than any growth, over more than a thousand years. Within the 600 years from the middle of the 14th century to the 20th century, the Tibetan population in the Tibet Autonomous Region [as published] remained within 1 million or so. In Xinjiang, there were approximately 1 million Kazaks in 1518, but there were only 0.44 million left in 1949, a decline of 56 percent. With regard to the Hezhen nationality in the Northeast, the population was approximately 12,000 during the reign of Emperor Kangxi of the Qing Dynasty, but there were only little more than 300 left in 1945, and they were facing extinction.

Since the founding of New China, the Chinese Government has taken a number of vigorous measures to promote minority nationalities' economic development. For instance, in laying down programs for national social and economic development, policies of lessening or remitting burdens and rehabilitation are carried out in light of the minority nationality areas' situation, characteristics, and needs; minority nationality areas are encouraged to formulate policies to promote production in light of local circumstances; developed provinces and regions along the coast, and in inland areas appropriate assistance is rendered minority nationality areas; and minority nationality areas are opened up to other parts of the country and foreign countries so as to accelerate the exploitation of their plentiful resources. These measures have vigorously promoted minority nationality areas' economic development, with a remarkable improvement in the working and living conditions of peasants and herdsmen as well as a substantial increase in their living standards. In 1990, the per-capita income of peasants and herdsmen in minority nationality autonomous areas was 548 yuan, an increase of 237 yuan compared with the average amount in 1984. Taking Tibet as an example, the state granted financial subsidies totaling 14.5 billion yuan from 1952 to 1990, while investments in infrastructure construction amounted to 3.2 billion yuan. With strong aid from the state, the overwhelming majority of Tibetan peasants and herdsmen have solved the problem of inadequate food and clothing, and some have become rich. According to the 1990 sample survey conducted in Lhasa, every hundred households owned 88 color television sets, 84 tape recorders, 24 refrigerators, and 42 washing machines.

Moreover, in order to accelerate the development of minority nationality areas' production and the improvement of the people's livelihood, the government has arranged for the migration of certain ethnic minority populations. For instance, the state helped the Kuchong nationality migrate from primeval forests in mountainous areas of Yunnan Province, where they had lived for generations, and assisted them in building new houses and opening up farmland; with regard to the Yao nationality in some areas of Guangxi and Guizhou, as well as segments of the Hui nationality in Ningxia, the state helped them migrate from impoverished areas which were short of drinking water and farmland to

areas with better natural conditions; with regard to 10 nationalities, including the Mongols, Tibetans, and Kazaks, who are engaged in animal husbandry, their nomadic lifestyle of moving from place to place in search of water and grass all year round has been gradually changed, enabling them to settle down while grazing livestock. In Inner Mongolia, which is one of the five big pastoral areas, 80 percent of herdsmen lived in Mongolian yurts 10 years ago because of a nomadic life, but nowadays, 90 percent of them live in settled sites, with an average per-household living space of 80 square meters.

The improvement of working and living conditions has enabled the ethnic minority population to grow rapidly. In 1953, when Mainland China's first population census was conducted, the ethnic minority population was 35.32 million, accounting for 6.03 percent of the mainland's total population; in 1982, when the third population census was conducted, the ethnic minority population was 67.239 million, accounting for 6.7 percent of the total population; in 1990, the fourth nationwide population census registered an ethnic minority population of 91.2 million, accounting for 8 percent of the total population across the country. The total population of the Tibet Autonomous Region at the time of peaceful liberation in 1951 was a mere 1.05 million. After the peaceful liberation, the state carried out a range of policies and measures to boost production and encourage childbirth, bringing about a rapid growth in Tibet's population. In 1990, when Mainland China's fourth population census was conducted, the total population of Tibet had already reached 2.196 million, or more than double of what it was; of that population, 2.096 million were Tibetans, accounting for 95.46 percent. In comparison with the initial period following peaceful liberation, the Tibetan population in Tibet has increased by 1.096 million, or 110 percent.

Developing Medical and Public Health Services

One of the major causes of high mortality among ethnic minority populations is a shortage of medical service personnel and medicine. Since the founding of New China, in order to ease that shortage, the Chinese Government has been vigorously developing medical and public health services in minority nationality areas, thus effectively maintaining the health of the minority nationality masses.

There is an ethnic minority population of 12.34 million in Yunnan Province, which accounts for one-third of the total population. Before liberation, Yunnan was best known for suffering from the widest range of diseases. Starting from 1952, the government has dispatched several hundred medical service teams to remote, thickly forested mountains to provide medical services to the people of minority nationalities there, and help the local people set up hospitals. Nowadays, more than 3,000 public health organizations such as hospitals, clinics, health centers, and epidemic prevention centers have

been set up in Yunnan. In those nationality areas nicknamed "the home of communicable subtropical diseases," such as Simao, Dehong, and Xishuangbanna, the incidence of malaria and the endemic disease of goiter is kept below four per 10,000. Meanwhile, children of all nationalities are notified in a timely way to obtain vaccinations against diseases, which has enabled Yunnan to become the first Chinese border province to reach the 85 percent immunity rate set by the WHO. In addition, public health departments vigorously practice the new method of midwifery commonly used throughout the world, with a success rate as high as 88.32 percent, thus reducing the incidence of tetanus to a mere 0.55 percent, which is the lowest in the mainland.

With regard to public health services, the government also gives preferential treatment to some nationalities. China's public health services are confined to laborers in state-owned units and college students, but for minority nationalities with small populations like the Oroqen nationality and for the Tibet Autonomous Region, a fully subsidized public health service system is implemented, which includes diagnosis, supply of medicines, hospitalization, and in some areas, even free food service during hospitalization.

With strong support from the state, there have been tremendous increases in public health organizations, hospital beds, and medical service personnel. According to 1988 statistics concerning minority nationality areas, there was an increase of 440 percent in public health organizations, 140 percent in hospital beds, and 370 percent in medical service personnel [date from which increases measured not specified], and the pace of development of most areas had surpassed that of the other parts of the country. In addition, the government has been setting up itinerant medical service teams in economically developed areas to provide medical services in minority nationality areas. Positive measures have been taken to prevent and control such epidemic diseases as smallpox, tuberculosis, leprosy, malaria, venereal diseases, and brucellosis which are common in minority nationality areas, and some diseases have basically been eradicated after years of efforts. The development of medical and public health services has brought about a sharp decline in mortality rates in minority nationality areas. According to China's fourth population census, conducted in 1990, Tibet's mortality rate was 9.2 per thousand, a decrease of 1.88 percentage points as compared with 28 per thousand during the initial period after peaceful liberation; the average lifespan has increased by 22.8 years as compared with that before peaceful liberation.

A Special Population Policy for Minority Nationalities

Planned parenthood is one of China's basic national policies. Starting from 1964, when this policy was first declared, the relevant authorities enforced it in several large cities and then gradually shifted the focus to the rural areas, the main object of the policy being the Han nationality, which constitutes the overwhelming

majority of the national population. With regard to minority nationalities, from the 1950's to the 1970's, the authorities concerned adopted the policy of "population expansion" rather than planned parenthood. Since there was a gradual growth in population, both minority nationalities and minority nationality areas themselves called for planned population growth. In light of this actual situation, the Chinese Government started implementing the planned parenthood policy in minority nationality areas from the 1980's onward.

China's planned parenthood policy is: Advocating the principle of only one child per couple for the Han nationality, while relaxing restrictions for minority nationalities and permitting couples of minority nationalities to have two to three or even more children each. To what extent the policy is relaxed is defined by local governments in minority nationality areas in accordance with their local specific situations. For instance, Yunnan Province, which is situated on the southwest border and is inhabited by a wider range of minority nationalities than other parts of the country, practices the following rules for planned parenthood: Couples of minority nationalities in inland areas are allowed to have two children each; those who live in high and frigid mountainous areas near the border are allowed to have three children each; and no restriction is imposed on minority nationalities along the border. In the Guangxi Zhuang Autonomous Region, it is stipulated that: For such minority nationalities with small populations as the Shui, Yi, and Gelo, each couple is allowed to have three children; for such nationalities as the Miao, Yao, Dong, Maonan, and Gelo [as published], each couple is allowed to have two children, and individual couples who have practical problems are allowed to have three. For the Zhuang nationality, which is the most populous among all the minority nationalities in China, the principle of one child for each couple applies to them as it does to the Han nationality. However, it is also stipulated that the relevant authorities can systematically allow some leeway so that each couple is allowed to have two children in some of the Zhuang nationality villages where there is sparse population over a vast area, a lack of labor and transportation facilities, and poor medical service standards.

In addition, the authorities concerned have also given special consideration to minority nationalities with regard to marriage in relation to the planned parenthood policy. The "Marriage Law" provides that the legal age for marriage is 22 for male citizens and 20 for female citizens in China. With regard to minority nationality autonomous areas, however, each locality can formulate its own marriage ordinance in accordance with local residents' religious beliefs and customs. In general, the legal age for marriage is two years earlier than that for citizens elsewhere, namely, 20 for males and 18 for females.

Nowadays, in Mainland China, minority nationalities have the biggest centenarian population groups and the highest birth rates and natural population growth rates.

The areas with higher population growth, which account for nearly one-third of China's total area, are mostly areas inhabited by minority nationalities. Fifty-five minority nationalities in Mainland China are marching toward civilization and affluence with unprecedented prosperity and development.

AGRICULTURE

Heilongjiang Paddy Fields Suffer Drought

SK0606083892 Harbin HEILONGJIANG RIBAO
in Chinese 2 May 92 p 1

[By Yao Yi (1202 0001): "The Province's Paddy Fields Fall Seriously Short of Water"]

[Excerpts] Our province's paddy fields are suffering a water shortage, which is unprecedented in the past 30 years. Vice Governor Sun Kuiwen who has just returned from a trip to other provinces recently sponsored a forum with the personnel in charge of water conservancy work from five prefectures and cities and 20 counties that are suffering a serious drought to discuss the countermeasures for dealing with these problems.

According to statistics, the 2.8 million hectares of fields in the prefectures and cities of Mudanjiang, Songhua-jiang, Suihua, Qiqihar, and Jiamusi are suffering from the a serious drought. The acreage in these fields accounts for 30 percent of the total acreage of the province's paddy farmland. The flow rate along the rivers of Muling, Hulan, Lalin, Mayi, Weiken, and Chuoe, is lower than in the past. Of the 7,700 rivers in Mudanjiang city known to be rich in water, 5,300 are without flow. There was no accumulated snow last year, the province enjoyed little spring rainfall this year but suffered a gale, water accumulation in rivers was less and has evaporated rapidly, and the utilization rate of water conservancy facilities has declined because this facilities were destroyed by flooding last year. All of this has intensified the water shortage.

According to the drought situation this year and the experience gained by various localities in combating drought, comrades from various prefectures, cities, and counties contended at the forum that we should adopt the following countermeasures:

1. We should speed up the repair and rebuilding of water conservancy facilities destroyed by flooding. [passage omitted]
2. A good job should be done in dry soil preparation and transplanting rice with a one-time supply of water. [passage omitted]
3. Efforts should be made to popularize the new technologies of breeding seedlings without water, carrying out sparse transplanting, and irrigating fields in a rotation manner and with limited water in order to save one third of the water supply. [passage omitted]

4. A good job should be done in allocating water in a unified way and broadening the acreage of irrigated farmland. [passage omitted]

Shift to Smaller Agriculture Machinery Urged

92CE0439A Beijing JINGJI CANKAO BAO in Chinese
30 Apr 92 p 1

[Article by JINGJI CANKAO BAO reporter Xia Ri (1115 2480): "Flip-Flop' in Agricultural Machinery Market Prompts Ministry of Machine Building and Electronics To Advance New Requirements for Restructuring"]

[Text] Recent coverage of the farm machinery industry has brought it to our attention that a "flip-flop" has occurred in China's farm machinery needs. This phenomenon is primarily revealed in the fact that 10 or so years ago, as the output-related system of contracted household responsibility was being implemented, the focus of the product mix in agricultural machinery was moving away from large-scale and medium-scale models toward smaller models, and away from grain farming machinery toward machinery that could meet the needs of a diversified economy. By contrast, in the past couple of years, as our dual focus on both centralized and decentralized economic spheres has expanded rapidly and our social service system has grown, the variety, technological sophistication, and quantity of new large- and medium-scale models of agricultural machinery have not kept pace with farming demands.

To counter this situation, the Agricultural Machinery Engineering Department of the Ministry of Machine Building and Electronics, which oversees the farm machinery industry, advanced new guidelines for revising the product mix. These guidelines call for us to focus on developing new models of large-scale and medium-scale farm machinery at the same time as we are improving small-scale agricultural machinery and seeking to satisfy machinery needs for the diversified economy.

The practical thrust of these guidelines is that our primary emphasis must be on the development of large-scale and medium-scale agricultural machinery to serve the grain production sector. We must succeed in absorbing and assimilating the technology imported in large- and medium-size wheeled tractors, we must modernize and improve the outdated tractor products we now produce, and we must hasten the pace of model replacement. In particular, we need to embrace the development of products we lack or are short of and as quickly as possible build up productivity. We also need to arrange for the development of 30 different kinds of key machinery, including trench diggers, pipe-laying equipment, combine soil preparation and precision drilling machinery, water-saving models of water conduit equipment, rice and corn combine harvesters, grain drying equipment, seed processing machinery, and complete large-scale grain storage facilities.

Rural Income, Consumption Up 1st Quarter 1992

Beijing JINGJI CANKAO BAO in Chinese
30 Apr 92 p 1

[Article by JINGJI CANKAO BAO reporter Zang Chuanzhi (5258 0278 1807): "Rural Residents' First Quarter Cash Receipts Increase, Peasant Consumption Level Continues To Improve"]

[Text] According to a State Statistical Bureau survey of 67,000 peasant households in 29 provinces, cities, and prefectures, in the first quarter of 1992, rural residents enjoyed a substantial increase in income and a continued rise in consumption level.

In the first quarter of 1992, per capita cash receipts for rural residents averaged 228.1 yuan, up 31.3 yuan, or 15.9 percent, over the same period of the previous year. Adjusted for inflation, this represents a 14.9 percent jump in real cash receipts. Looking at the primary sources of income, in the first quarter peasants received an average of 35 yuan per capita from the collective centralized economy, up 19.1 percent over the same period of 1991. The average per capita household income was 160.6 yuan, up 15.4 percent over the same period of 1992.

As cash receipts rose for rural residents, peasant consumption, after having fluctuated for the past two years, began to rise. In the first quarter the average per capita cash outlay on consumption among rural residents was 138.9 yuan, up 16.8 yuan, or 13.8 percent, over the same period of 1991. Adjusted for inflation, the real increase was 12.3 percent.

The peasant consumption mix also showed a new shift: In the first quarter peasants spent an average of 57.6 yuan per capita on food (up 15.2 percent over the same period of 1991), 26.3 yuan on daily necessities (up 13.8 percent), and 15.4 yuan on services and other noncommercial expenses (up 16.4 percent).

Hainan Grain System Reform Appears Successful

Beijing JINGJI RIBAO in Chinese 14 Apr 92 p 1

[Article by JINGJI RIBAO reporter Gao Yunquan (7559 0061 3123): "Grain Market Is Stable, Peasant Enthusiasm Is High; Hainan Grain System Reform Appears Successful"]

[Text] In May 1991, Hainan became the first province to reform grain buying and selling prices. Since then, the grain market has stabilized and the average price of grain in the country market system not only has not risen, but on the contrary has fallen slightly compared with pre-reform prices.

After Hainan, with a mere 6 million people, became a province, it experienced a negative grain trade balance of 263 million yuan per year. By 1991, the amount had increased to 700 million yuan—equal to total provincial revenues for the year. After a thorough study and analysis, Hainan quickly proposed a three-stage process for restructuring grain buying and selling throughout the province. The first stage targeted the residents' large annual surplus, resulting from economizing, by reducing sales of low-price grain by 20 percent. The second stage changed state-fixed pricing to state guidance pricing and instituted identical buying and selling prices. The third stage, drawing upon the state macroeconomic plan guidance, introduced negotiated grain trading. Beginning on 1 January 1990, Hainan began the first stage of the reform plan, by reducing sales of low-price grain by 20 percent, switching to market regulation, and deregulating the original-price trading price for edible oils. In April 1991 Hainan also put the second stage of the reform plan into effect, instituting identical pricing for grain oil buying and selling.

Significant progress has been made since Hainan began grain price reforms. First of all, peasants are now more motivated to produce grain, resulting in a 4.4 percent jump in grain production in 1991. At the same time, the province has been able to save more than 20 million kg of grain per year.

Tibetan Region Official Urges Training Quality

92CM0317A Lhasa XIZANG RIBAO in Chinese
26 Mar, 2 Apr 92

[Article by Tibetan Military District Deputy Chief of Staff, Zhe Erong (2678 0059 2837): "Brief Discussion of the Improvement of Eight Elements in Military Training Quality"]

[26 Mar 92 p 4]

[Text] Military training is the most fundamental practical activity in the building of the armed forces. In emphasizing a policy for building quality in China's armed forces, the Central Military Affairs Commission objectively poses higher demands for military training quality. Only by raising the quality of military training so that the two main elements in building the armed forces—the organic and high quality combination of personnel and materials—can the building of quality armed forces be possible. However, the ways of going about building military training quality are numerous. I believe that improving the quality of military training requires devoting efforts to, spending energy on, and judging returns from the following eight factors.

1. Need For Quality Consciousness in Military Training

The importance of military training must be understood in strategic terms. With the break up of the Soviet Union, the world has become multipolar. Although no world war will break out for now, limited wars and local wars are unavoidable. In order to ensure the unimpeded advance in China's four modernizations and avoid the armed forces becoming too great a burden that hurts the nation's economic take-off, building the armed forces must be done as it was during the Yan'an period 50 years ago. We must take the road of building a crack army, emphasizing quality. Only by improving military training, raising the quality of training as a means of accelerating survival and improvement in combat capabilities, each soldier being able to do the job of another soldier, each being able to both attack and defend, for the development of a crack force can we meet the needs of the international and the domestic situations as well the requirements in developing the national economy. We must look at the correct place of military training in the work of the armed forces in terms of building a quality army. Personnel of all kinds and at all levels must fully appreciate the key position of military training. They must solve the problem of how to do other work while concentrating on this key task, instead of concentrating on other tasks while performing this key task. They must make training a part of overall planning, and conduct it in a coordinated way. This means that improvement in the quality of military training in the armed forces must be given first place when inspecting military training. It must be made clear that improvement of the quality of military training is an important part of the implementation of the Central Military Commission's policy of building quality armed forces.

2. Need for High Quality Trainers

If a man wants to work with iron, he must be tough himself; there are no poor soldiers under a good general. Everyone from those in charge of training to those who provide the instruction must be people versed in training. Training personnel and permanent cadres, in particular, must personally possess superb qualifications. They must possess exceptional skill in tactics and skills of various kinds, and be models with the "three skills" [skill with the gun, with artillery, and with technology], and the "four abilities" [si hui 0934 2585]. One can imagine the quality of training in a unit in which the leaders do not understand training, and the trainers and permanent cadres do not know how to go about organizing training. Therefore, it is most important that personnel who give training perfect their own capabilities. They must lay a solid foundation in warfare and technology, learn step by step, and strive for accuracy, standards, and proficiency in tactical and technical action, and constantly improve. Second there is the need for those who organize training to learn the art of being "able to teach." They must diligently study training results from use of the Guilin teaching method throughout the armed forces, thoroughly study training guidance methods, learn one skill at a time, and strive to fashion a standard, yet distinctive training course and methods. Third is the need for those who give training to meld into training practices the art of being "able to do" and being "able to teach." Guo Xingfu [6753 5281 4395]-style teaching experiences should be applied, repeatedly practicing, painstakingly exploring, really achieving, being able to express oneself, and stressing "excellence"; being able to perform, stressing perseverance; and being able to "teach," and working out ways of being "flexible." In doing ideological work, the emphasis must be on "thoroughness." This is the only way that an overall rise in the quality of military training can be assured.

3. Need For Quality Standards For Training

Like everything else, military training is founded on a certain quality and quantity. However, because some units do not have a very good concept of the need to conduct training as prescribed, training is erratic in some units. For example they change training plans at will, shorten training hours, abridge the content as they please, and lower standards to suit themselves. Such practices exist in military units to varying degrees. It must also be noted, in particular, that in some units, the number of troops undergoing training, the content of training, and the hours of training were all completed as prescribed, yet training quality was not high and could not stand the test. It must be made clear that the essence of the "four implementations" in training is quality. Only when quality is implemented can the other implementations have any real significance. In judging how well a unit has been militarily trained, the quality of training must also be the main basis. All levels must feel a sense of urgency about pressures for quality, improve their direction of training, improve their inspection of

training, and improve analysis and study of training, training work thereby following a strict, unified, and standard road in which attention to quality is foremost.

[2 Apr 92 p 2]

4. Need To Take the Quality Road in Training

In recent years, China's swimmers have made a splash in both Asian and world swimming meets, taking championships. The most important reason why they have been able to do this is scientific training. Military training in the armed forces must likewise be scientific if major achievements are to be scored. Those who give training must also possess unique skills so that military training follows a scientific path to quality. Trainers must both proceed from the needs of actual warfare to conduct hard and rigorous training, and they must also abide by training rules. They must conduct and make the most of the traditional methods used for training soldiers in the Chinese armed forces to improve the quality of training. For example, they must progress step by step in an orderly way, adapting instruction to those being instructed. They must both improve overall training, and also highlight key points and tackle difficult problems. They must both painstakingly instruct on one thing at a time, conduct training rigorously and smartly, and must also put the individual pieces together in a coherent whole to conduct integrated training. They must combine individual instruction with group instruction, simulated training with live training, training in single skills with resistance training, and make full use of sophisticated techniques such as audio-visual education and simulation training, and organize training scientifically. In this way the quality of military training can be steadily improved.

5. Serious Need for Quality Standards

The higher the quality standards, the more rigorous the demands on training. As a new people's army, we can neither follow the example of Sunzi in punishing the laughing favorite concubine as a warning to others when he was training troops, much less can we depart from the high standards and basic principles of rigorous training. The situation in some units today shows that despite all the training, no growth or improvement in combat capabilities can be seen. The reason is probably the lack of quality standards for training, failure to train rigorously, going through the motions of training, becoming bogged down in formalism, putting on a good show, and resorting to trickery. To deal with this, we must make sure that quality standards permeate all training and live exercises, do more in the way of regulating trainers, follow rules and regulations, rigorously train according to high standards and rigorous requirements, and perform high quality, difficult, dangerous, and realistic training. We must toughen and temper the armed forces in complex and adverse circumstances, and foster a

combat elan of strictly following orders and prohibitions, and of courage, and tenacity.

6. Need for Quality Performance of Training Facilities

Military training requires material and equipment as "stage props" and training grounds as a "stage." Lacking these basic condition, normal training cannot be conducted, and there is no use even mentioning training quality. At the present time, training support capabilities in China's armed forces are substantially less than for foreign armed forces, and they also fall far short of the armed forces' real needs.

Therefore, while continuing to practice hard work and thrift in the training of troops, all possible must be done to improve training support gradually and selectively. Upper and lower levels must work together in sharing investment, building as rapidly as possible training areas and facilities that meet the requirements set forth in the overall plan. In addition, we must suit general methods to specific circumstances, avoid bad guerrilla habits, and carelessness in fabrication and construction, and strive to make the "stage" for troop training standard, uniform, and regular to assure troop training quality.

8. Need for Quality Goals in Managing Training

In order to make sure that troop training develops in a healthy direction, supervision and control of the entire military training process must be improved. From the drawing up of plans for military training to conducting training and evaluating it, supervision and control work have a certain quality as the goal, with quality serving as the hallmark of training. More must be done to improve training leadership. CPC committees at all levels; military and civilian officers in charge; and headquarters, political, and logistics departments must regularly discuss training, devote attention to training, draw up scientific training plans, check on how well plans have been carried out, analyze the training situation and take necessary corrective action, and provide timely guidance to help troop training. At the same time, discussions about training and attention to training must stress quality. In discussing training, all levels must do more than discuss generalities or behave like armchair strategists. They must be thorough. When giving attention to training, they must do more than stroll through the training areas. Leaders and staff organizations at all levels must have their own experimental "fields" in which they can immerse themselves and do real work, produce results, and quality.

Improvement of military training quality requires attainment of political qualifications, military excellence, a fine work style, strict and impartial discipline, and vigorous support. It entails a change in the direction of military training. We must focus on the improvement of military training quality, and constantly study new situations to solve new problems.

CENTRAL-SOUTH REGION

Article Urges Cracking Down on Economic Crimes

*HK1806120092 Nanning GUANGXI RIBAO in Chinese
7 May 92 p 3*

[Article by Cai Yu-yu (5591 3768 3842), deputy chief procurator of the autonomous regional people's procuratorate, and Meng Yongshan (5536 3057 1472): "Striking at Economic Crimes To Serve Economic Construction"]

[Text] To make the work of striking at economic crimes really serve economic construction, it is necessary to implement the principle of "be resolute, cautious, and accurate." On the one hand, it is necessary to deal resolute blows at the criminal cases which obstruct economic development and undermine economic construction without relaxation; on the other, it is necessary to pay attention to work methods and be cautious toward those cases which are difficult to handle accurately as there are no definite policies, laws, and regulations to act upon. We should not investigate kinds of conduct which are not harmful to society but are beneficial to economic construction and regard them as economic crimes. Moreover, it is also necessary to overcome the idea and practice of handling cases in a mechanical way and conscientiously carry out comprehensive improvement [of social order] to serve economic construction. To put it concretely, the political and legal organs, especially the people's procuratorates, should mainly grasp the following work in order to serve economic construction:

I. Grasping the Main Targets in Striking at Economic Crimes

Taking resolute measures against economic crimes is the most important and most direct service to economic construction.

At present, it is necessary to mainly grasp the following cases: First, the serious and harmful cases involving large sums of money; second, the cases resulting in serious losses to enterprises and relevant units because of economic crimes; and third, the cases which cadres, the masses, and relevant departments strongly demand be handled seriously. Taking the nature of cases into consideration, it is necessary to mainly investigate and handle corruption and bribery cases, especially the major and important corruption and bribery cases. To serve large and medium-sized state-owned enterprises and to serve agricultural and rural work better, it is particularly necessary to handle the following kinds of criminal cases promptly and severely: 1) Criminal cases of corruption, bribery, misappropriation of public funds, and dereliction of duty which have harmed enterprises seriously, affected their normal production, and made them suffer serious economic losses. 2) Criminal cases in which state functionaries and enterprise managing personnel have colluded with each other and engaged in trading power for money, resulting in the embezzlement, stealing, and

obtaining by fraud of enterprise property, and which have made enterprises suffer serious economic losses. 3) Criminal cases in which the relevant departments in charge of enterprise affairs, economic supervision departments, or other state organs and their working personnel have taken advantage of their powers and functions and the convenience of their posts to make things difficult for enterprises in order to extort and take bribes. 4) Cases of selling false and fake commodities in an attempt to disturb and undermine the markets of brand-name and superior products. 5) Criminal cases of producing and marketing false and inferior farm chemicals, fertilizer, and seeds which have brought about losses to agricultural production and harmed the peasants' interests.

II. Strictly Distinguishing Between Crime and Non-Crime

To make the struggle against economic crimes serve economic construction, it is necessary to crack down on economic crimes accurately. Thus, it is necessary to strictly distinguish between crime and non-crime. It is necessary to distinguish between mistakes in work and lawbreaking and criminal offenses, between unhealthy tendencies in the economic field and economic crimes, and between criminal activities such as smuggling, corruption, bribery, speculation [tou ji 2121 2623], and swindling and the problems emerging in the course of carrying out the policy of opening up to the outside world and enlivening the domestic economy because of the imperfection of certain systems and methods. When determining criminal responsibility, it is necessary to distinguish between corruption committed individually and the practice of turning public property into collectively owned property. In practical work, it is necessary to do a good job in the following fields:

1. Seeing through the appearance to get at the essence and drawing a clear distinction between merit and crime. We must be good at seeing through the superficial appearance of cases to get at the essence of problems. Those who have intentionally encroached on the interests of the state and the collective under the pretext of enlivening the economy and in the names of "contract," "association," and "earning foreign exchange" should be declared guilty and punished. But conduct which has created wealth for the state and the collective without encroaching on their interests should not be treated as a criminal offense.

2. Taking a correct attitude toward social intercourse in economic contacts. At present, there has been increasing social intercourse in economic contacts, and such social intercourse is becoming more and more complicated. In particular, the phenomena of "commission" and "entertainment" have become quite common practices. We should take a realistic attitude toward them. Generally speaking, so long as the social intercourse is carried out in the interests of the collective and for the subsistence and development of enterprises, it should not be regarded as a crime and investigated. It is necessary to

distinguish between the necessary expenses for promoting the sale of commodities and necessary social intercourse in economic contacts and criminal offenses, such as corruption and bribery, under the pretext of social intercourse.

3. Distinguishing between contracts and economic crime. Conduct for the purpose of carrying out contracts should not be regarded as economic crime. The remuneration and bonuses obtained by enterprise operators according to contracts and leases should be distinguished from corruption. Neither should economic disputes between enterprises in carrying out economic contracts be confused with economic crimes.

4. Drawing a clear distinction between mistakes in economic work and economic crimes. On this question, it is necessary to give first consideration to the subjective motive of the persons involved. If the persons involved did not intend to seek private gains by illegal means but worked for the interests of the state and the collective and the serious losses they brought about when carrying out economic activities were beyond expectation, they should not be investigated and affixed with criminal responsibility because they had just made mistakes in their work.

III. Pay Attention to Work Method and Effect

1. Strictly carrying out the principles for handling cases. First, the principle of handling cases according to the law. Second, the principle of seeking truth from facts. Third, the principle of relying on the masses. Fourth, the principle of laying stress on evidence and not readily believing confessions. So long as we strictly follow these principles in handling cases, we will surely be able to deal heavy blows at economic crimes and promote economic development.

2. Taking the enterprises' interests into full consideration. When investigating and handling cases involving the leading members of enterprises, the main persons in charge of the production, management, and operation departments, or the main technological personnel, it should not be made known to the cadres and workers of the enterprises or to the public before facts and evidence are clarified, nor should legal measures be taken rashly. If the cases should be placed on file for investigation and prosecution, it is also necessary to strictly observe the system of asking for instructions from and reporting to the higher authorities in accordance with relevant stipulations. If someone should be detained or arrested, it is necessary to discuss the matter with the relevant party committee and government, inform the relevant department in charge as soon as possible, and propose and help them to find someone suitable to replace the arrested person so that normal operation of the production command system and production and management organs can be ensured. Generally, no legal measures should be taken against the main leading and technological personnel of enterprises who have committed crimes which do not involve large sums of money, and who are willing

to surrender their ill-gotten gains and atone for their crimes by doing good deeds. They can be exempted from criminal sanctions so that they can continue to play their role in production and management and enterprise stability can be maintained. When handling cases, as far as possible, the accounts of the enterprises should not be sealed up, their funds should not be frozen, and their assets and documents should not be withheld, so that the channels of production, supply, and marketing can remain unimpeded. If cases cannot be handled without sealing up or withholding, measures should be adopted to investigate and verify them as soon as possible so that the normal production and operation of enterprises may not be affected. While handling cases, efforts should be made to recover stolen property and money. If it is discovered that state or collective funds have been stolen by the criminals involved in cases under investigation or that state or collective property has been illegally occupied by others because of economic crimes, efforts should be made to recover the stolen money and occupied property as soon as possible so that economic losses to the state and the relevant units can be reduced to the greatest extent.

3. Conscientiously protecting the legal rights and interests of plant directors and managers. When investigating and handling economic criminal cases involving plant directors, managers, and other leading personnel of enterprises, if it is discovered that the facts have been distorted and the cases have been wrongly reported to the security authorities, it is necessary to inform various departments concerned immediately so they can be freed from the investigation as soon as possible. If investigation has already produced some bad effects among the cadres and masses, it is necessary to explain the facts and the results of the investigation to them so that misunderstanding and bad effects can be removed. Frame-up cases against plant directors and managers who are determined to carry out reform and who have carried out strict management and handled affairs impartially should be resolutely investigated and handled according to law so that the prestige of the enterprise leaders can be effectively maintained.

4. Paying attention to the effect of handling cases. When handling economic criminal cases, attention should be paid to the effect of handling cases. It is necessary to concentrate strength on handling the cases which have incurred great economic losses and great popular indignation, which have produced very bad influence among the masses, and which the cadres and masses strongly demand be investigated. It is necessary to take a cautious attitude toward cases which are difficult to handle; for example, if they are disputed or it is difficult to define whether they are criminal cases or not. Provided laws and regulations are not violated, the handling can be temporarily suspended or canceled.

IV. Improve Social Order in a Comprehensive Way While Handling Cases and Help Enterprises Solve Difficulties

The political and legal departments must overcome the viewpoint of merely handling cases. They must also work to improve social order in a comprehensive way and in light of local conditions and must help enterprises solve difficulties. Only thus can they provide economic construction with the most basic services.

First, it is necessary to give full play to their roles of making "procuratorial proposals" and "judicial proposals." While investigating, examining, and prosecuting economic cases, the people's procuratorates must put forth effective "procuratorial proposals" to help the units and departments involved stop up loopholes and solve problems in their systems, management, and production, and the people's courts must also put forth "judicial proposals" when the cases are brought to trial. They must also help enterprises work out regulations and systems to stop up loopholes and remove hidden perils.

Second, it is necessary to revisit and reinspect the units involved after cases are handled. The political and legal departments must try to find out about the production, management, and economic development of the units involved in the cases they have handled and what persons who have been exempted from prosecution and sanctions, or whose sentences have been temporarily suspended, are doing. They must seek opinions from them about the units and personnel handling the cases so they can better communicate with the enterprises and improve their work.

Third, it is necessary to strengthen contacts with the enterprises by visiting them or inviting their personnel to discuss matters. The political and legal departments must go to the enterprises to carry out investigation and study and carry out propaganda and education on the legal system in light of the specific conditions of the enterprises so as to continuously strengthen the legal concepts of enterprise cadres and workers and their ability to resist corruption. At the same time, they must invite enterprise leaders and main production and technological personnel to forums in order to exchange views and discuss the new situation and new problems together and to explore new methods for cracking down on economic crimes and serving economic construction. In this way they will be able to guide the enterprises to operate according to the law, provide the large and medium-sized state-owned enterprises and economic construction with better and more effective legal guarantees, and create a better legal environment.

Guangzhou City Claims Success Against '7 Evils'

HK2705091092 Guangzhou Guangdong People's Radio Network in Mandarin 0400 GMT 19 May

[Text] Zhanjiang City has achieved an initial result in its joint operations against the seven evils. The city has arrested more than 1,800 persons involved in the seven evils and have destroyed a number of sinister dens. In the operations against the seven evils conducted from 1 April to 14 May, Zhanjiang City checked up and consolidated more than 7,000 hotels, hair salons, beauty

parlors, and so on, and 37 of them were ordered to close down. In addition, 75 sinister dens involving prostitution, drug taking, spreading pornographic materials, and others were destroyed. Some 245 persons involved in prostitution and patronizing prostitutes were arrested in addition to 13 pimps, 2 persons guilty of taking and selling drugs, and 23 persons guilty of abducting and selling women and children. A number of pornographic video tapes, books and journals, gambling devices, and heroin were confiscated.

Zhanjiang City has taken prompt, swift, and strict actions to deal with those who were arrested because of the seven evils. Some 27 rallies were held to announce court decisions and the ways to deal with those criminals according to law, 30 criminals have been sentenced to imprisonment, and 22 criminals have been sent to labor reform camps for labor reform or reeducation. In addition, four persons involved in the seven evils were leniently treated because they voluntarily surrendered themselves to the police.

Minister Views Guangdong Family Planning Progress

HK0106102892 Guangzhou Guangdong People's Radio Network in Mandarin 1000 GMT 25 May 92

[Text] A national conference on discussing experiences on floating population and related family planning work wound up in Shenzhen today.

During the conference, reporter Gu Liquan from this station interviewed Peng Peiyun, minister of the State Family Planning Commission.

During the interview, Peng Peiyun said: Guangdong has made much headway in family planning work over the past few years. Guangdong has set itself a task of catching up with the four small Asian dragons within a period of 20 years. This is indeed an arduous task. At present, Guangdong is also quickening its pace of reform and opening up. In view of this situation, while speeding up economic construction, Guangdong must make continued and sustained efforts to carry out family planning and strictly implement its own family planning regulations to the letter. [words indistinct]

Peng Peiyun noted: Over the past few years, Guangdong has made unreserved efforts to cope with a huge influx of floating population from other provinces and regions and accumulated experience in this regard. So long as the leadership concerned attaches great importance to family planning and makes earnest efforts to step up family planning work, new progress in family planning can undoubtedly be made. [words indistinct]

NORTH REGION

Hebei Secretary Urges Deng South Speech Study

SK1706130692 Shijiazhuang HEBEI RIBAO
in Chinese 24 Apr 92 p 1

[Text] "The major characteristics of the new situation facing us are: The higher and the lower levels across the country are taking Comrade Deng Xiaoping's important speech as a motivation to further whip up an upsurge in accelerating reforms, opening up, and economic development. The situation is pressing. We should enhance our sense of crisis and urgency, display our pioneering spirit and enthusiasm, work out methods, accelerate the pace of economic development, create a new situation through solid work, and do a good job in accelerating reforms, opening up, and economic development." Xing Chongzhi, secretary of the provincial party committee, stressed this statement repeatedly during his inspection tour to Handan on 17-21 April.

Xing Chongzhi said: To do a good job in accelerating reforms and opening up, the most important thing is to continue efforts to thoroughly study Comrade Xiaoping's important speech and unceasingly raise the degree of emancipation of the mind to a new level. Although we gained initial results in the previous stage of study, judging from the problems reflected in our practical work, many comrades still had the "leftist" ideological shadow and the old and rigid concepts of fear. They were satisfied with the present situation when they came across some specific problems, and the cases of some comrades were very serious. It is necessary to continue efforts to further firmly grasp the study of Comrade Xiaoping's important speech, make efforts to comprehensively and profoundly understand its essence, and pay particular attention to solving the problem of failing to make big strides in reforms and opening up. To solve this problem, the most fundamental thing is to adhere to the criterion of "doing things conducive to three aspects of work" advocated by Comrade Xiaoping. In a word, in the past, our failure in gathering courage in reforms and opening up as other advanced provinces, cities, and regions did and in producing as many methods and making as rapid strides as they did was caused by our failure in deeply understanding and effectively implementing this criterion. If we want to accelerate reforms and opening up and to develop the economy, we must ideologically foster this criterion and implement it realistically in each and every practical work. Only thus can we have a firm ideological and theoretical basis for taking economic construction as the central task and for upholding reforms and opening up, and can we really have the courage to blaze new trials, to perform our duty, and to advance in a pioneering spirit.

To accelerate reforms and opening up and to develop the economy, we should be bolder, do our work more solidly, and unceasingly seek new breakthroughs. Development is a forceful measure, and economic development, whether quick or slow, is determined by the steps we

make, whether big or small, in reforms and opening up. Taking the situation of the whole province into account, the rate of development is still slow and the pace of reform and opening up is not big. We should resolve to carry out reform and opening up in desperation, boost enthusiasm, and adopt effective measures to accelerate the pace of reform and opening up. It is necessary to realistically implement the measures of the provincial party committee and the provincial government on further accelerating reform and opening up, and strive to make new creations and seek new development in line with local realities.

Xing Chongzhi said that the Handan Iron and Steel Plant's experience in establishing an independent accounting system in its simulated market is good because it has opened up a new path for changing the internal mechanism of enterprises, and that it is worthy of studying and using as a reference. He said: The fundamental purpose of changing the internal operational mechanism of enterprises is to fully mobilize the enthusiasm of the broad masses of workers, intensify the vitality of enterprises, and push them into the market. All reform measures should be related to the realization of the immediate interests of workers and the success or failure of enterprises and should enable each and every worker to voluntarily care for the development of enterprises and to strive to serve as masters and to contribute to enterprises.

Xing Chongzhi said: While actively advancing enterprise and rural reforms, we should make the reforms of leading organs, particularly functional departments, closely keep pace with the others. Generally speaking, the reform of functional departments is still stagnated. We should rapidly change this situation. The reform priority of economic and technical departments is to simplify administration and delegate powers, and through this, to enable the grass roots to feel comfortable in handling things, and to enable all areas to make efforts to develop the economy. The reform of some noneconomic and nontechnical departments must also be expanded. In a sense, to judge our achievements in accelerating the pace of reforms and opening up, we should first see whether the reform of the cadre and personnel systems can be accelerated; to push economic construction to a new stage, we must first of all push the reform of the cadre and personnel systems to a new stage. The organization and personnel departments should select those who are generally acknowledged by the people as persons who have upheld the reform and opening up line and have achievements into the leading organs. Meanwhile, we should make great efforts to improve the work of appraising, awarding, punishing, and employing cadres and make the work meet the needs of the new situation. Other departments should also ponder issues, formulate policies, and manage things in line with the proposal of "doing things conducive to three aspects of work." By so doing, we will be able to form a strong joint force in reforms and opening up and to unceasingly develop all fields of work.

Referring to the issue of reforms and opening up, Xing Chongzhi said: The most important is to be bolder in reform. We must have the courage to study and draw experience from various countries' advancements, particularly capitalist countries, including advanced science, technology, managerial experience, and operational methods, and use them. The policies in force are the key to enabling us to become bolder in reforms and opening up. As long as the projects are good, regardless of introducing investment from abroad or establishing lateral ties at home, we must issue policies to support them. It is necessary to resolutely carry out all projects clearly stipulated by the central authorities and the upper levels; try them and go ahead with daring to do things that are not clearly stipulated by the central authorities and the higher levels but that we think is right for us to do. In this respect, we must be less dependent but more creative. We must not be afraid of suffering losses, but be good at working out a big account which is conducive to our development and expanding our economic strength. The experiences of all localities showed that to successfully open the municipality to the outside world, we must also pay attention to developing a public relationship. Public relationship is also a resource of great importance. We should learn how to use it, actively expand it, and through it, unceasingly broaden the information channels, increase cooperative partners, and expand the degree of opening to the outside world.

Hebei is an old revolutionary base. During the war, many veteran comrades worked there. Hebei also transferred a great number of cadres to all parts of the country. These comrades have a profound feeling for this old revolutionary base and have always enthusiastically cared for its construction and development. This is one of our biggest political advantages as well as our precious wealth. We should further fully display and use this advantage to serve Hebei's reforms, opening up, and economic construction. Fujian has relied on its "relations with Taiwan," Guangdong has relied on its "relations with Overseas Chinese," and we must make good use of our old revolutionary base.

Xing Chongzhi stressed that we must pay attention to scientific, technological, and educational work in the course of accelerating reforms and opening up. He said: We must persist in setting a high starting point in running high and new technology development zones, transforming traditional industries, and conducting new projects, and strive to increase the scientific and technical content in economic development. Trained personnel are carriers of technology. We should formulate more preferential policies, extensively absorb trained personnel, and actively train our own personnel so as to rapidly end the situation of lacking trained personnel. In economic development, all people have universally paid attention to input in materials but failed to pay sufficient attention to intellectual input. From a long-term view, education can really play a long-term role. Education is a "long effective medicine" for economic development and is most important for momentum. Leaders at all

levels should fully understand the extreme importance of education, science, and technology, and make strenuous efforts to grasp this fundamental work. Some localities proposed that we must not ignore education even though we are poor and must not make the children suffer even though we are in a very difficult position. This is an insight of great strategic importance. We must realistically implement it in our practical work. In addition to grasping ordinary education, we should also grasp adult education, vocational education, and technical education well; unceasingly enhance educational quality; and realistically shift the priority of developing economic work to the path of relying on scientific and technological progress and raising the quality of laborers.

During his stay in Handan, Xing Chongzhi conducted on-the-spot inspection in some plants and mining enterprises, attended a meeting of leading cadres of departments directly under the Handan City Government, and heard briefings on reforms and opening up given by Shexian County, Wuan city, and Handan Iron and Steel Plant.

Articles View Cultural Revolution, Inner Mongolia

Inner Mongolian Party Discussed

92CM0264A Hong Kong KAIFANG [OPEN
MAGAZINE] in Chinese No 63, 18 Mar 92 pp 46-47

[Text] The case of the Inner Mongolian People's Revolutionary Party [IMPRP] was the most tragic miscarriage of justice during the Great Cultural Revolution, the number of people killed or maimed exceeding 100,000. The racial overtones of the IMPRP case have not yet dissipated. Mongols are profoundly disgusted with the way Chinese Communist policies disregard the backward situation in Inner Mongolian pastoral areas.

By the admission of Chinese officials themselves, the biggest and most grievous miscarriage of justice during the catastrophe of the "Cultural Revolution" was the case of the IMPRP in the Inner Mongolian Autonomous Region during November 1980. The indictment that a special court of the Supreme Court brought against the "counterrevolutionary clique of Lin Biao and Jiang Qing" in November 1980 listed 48 criminal facts, the 28th of which concerned the IMPRP. It accused Kang Sheng of having said the following on 4 February 1986: "The IMPRP is still engaged in clandestine activities, and it may be beginning to expand somewhat. Do not fear." In February 1969, Kang Sheng said further that "the IMPRP is in the armed forces."

Greatest Miscarriage of Justice During the Cultural Revolution

The indictment noted that as a result of the IMPRP miscarriage of justice, more than 346,000 cadres and civilians had been framed and persecuted, and 16,222 had been persecuted to death. Speaking of the number of people persecuted to death, numbers killed in other major cases were as follows: In the Zhao Jianmin [6392

0256 3046] spy case in Yunnan Province, 14,000; in the miscarriage of justice in eastern Hebei, 2,955; in various miscarriages of justice in the armed forces, 1169; in the Guangdong clandestine party case, 85; in the Xinjiang rebellion case, 26.... in the IMPRP case, more than 16,000 ringleaders. That the figures are detailed down to the final digit shows this more than 16,000 people to be a reliable figure, but that is not the same as an accurate figure for all the people killed in that case.

Nevertheless, this figure suffices to show the ferocity of this tragic case **inasmuch as the total Mongolian population in China was only 2.4 million.** To be sure, most Mongols lived in the Inner Mongolian region, but they were also scattered throughout Liaoning, Xinjiang, Jilin, Heilongjiang, Gansu, and Qinghai provinces.

Those in the IMPRP who died were mostly Mongols; thus, the death of 16,000 people out of an Inner Mongolian population of approximately 2 million is truly shocking. Moreover, a general estimate is that several tens of thousand people died as a result of this case, and more than 340,000 were persecuted. **Officials have disclosed that more than 500,000 were locked up and tens of thousands were injured.**

IMPRP of Long Standing

The IMPRP was founded back in the 1920's by some Inner Mongolian leftist youths only to be disbanded by the Third International later one. Following victory in the war of resistance against Japan, it was reconstituted. In addition to leftist youths, its membership included officials. In 1946, the IMPRP founded the *Eastern Mongolian Autonomous Government*, which controlled a large tract extending from Chengde to Ulan Hot, and stood for independence and autonomy.

The Chinese Communists, who regard North China as a rear area base, naturally were very much concerned about the independence tendencies of Inner Mongolia. They dispatched their ranking Mongolian nationality cadre, Ulanfu, to eastern Mongolia to work on splitting up and winning over the group. In the end, the Inner Mongolian Autonomous Association replaced the Eastern Mongolian Autonomous Government, and the IMPRP was disbanded. In May 1947, the Chinese-led Inner Mongolian Autonomous Government was founded.

Nevertheless, the ethnic feelings of the Mongolians were not dissolved. Ulanfu failed to gain a majority in the first election of the first Assembly. In the process of the struggle with Ulanfu, the IMPRP leaders insisted that the Inner Mongolian autonomous movement should be under IMPRP leadership and not under leadership of the Communist Party. Their reasons were as follows: **The Inner Mongolia region is backward; it is largely a pastoral economy without industrial workers; thus, the establishment of a proletarian political party, the Communist Party, is not appropriate. Only the IMPRP should be established, but the IMPRP is willing to accept the leadership of the Communist Party.**

Furthermore, the IMPRP gained the support of the Soviet Red Army garrison forces that had triumphed over the Japanese invaders at that time. A Soviet Army division commissar told Ulanfu: "National independence is the right of the Mongolian people." Ulanfu replied: "You practice national independence; we practice national autonomy."

Ulanfu Concerned About Backwardness of Inner Mongolian Region

With the Chinese Communist victory in the civil war, naturally the IMPRP grew silent and disappeared. However, since Ulanfu—this red nobleman who ruled Inner Mongolia—had not been completely Sinicized, he was able to retain a different view about the Inner Mongolian pastoral region. Under his care, campaigns like land reform in Inner Mongolia were relatively gentle. He took care of the special character of the backward and decentralized pastoral economy of Inner Mongolia. **No struggle, no division, no drawing of class lines—**during the feverish communalization campaign, he opposed public messhalls for Inner Mongolia; and during the Great Leap Forward campaign, he did not advocate moving ahead with steel and iron mills in Hohhot.

This set the stage for attacks against him during the Great Cultural Revolution. The IMPRP case also seemed about to happen at any time, although Ulanfu had rendered meritorious service that year in opposing the IMPRP. When Ulanfu attempted to stand up to the Red Guards in setting off a rampage against the IMPRP over a wide area, and in maintaining control over Inner Mongolia, Mao Zedong dispatched an army from Beijing under command of Beijing Military Region deputy commander Teng Haiqing [3326 3189 3237] to invade Inner Mongolia. It united the Mao faction with the Red Guards in Inner Mongolia to topple Ulanfu's authority in Hohhot. A large-scale campaign to seize control of the IMPRP unfolded in a bloodbath from which no one escaped, from the top-level organs of the autonomous regional government to the grasslands in pastoral regions, or from the cultural system to the armed forces.

Protection of Teng Haiqing in Arresting Ulan Bagan

For nearly a year and a half from 1968 to the first half of 1969, a frenzied period of tracking down the IMPRP occurred. Xie Fuzhi [6200 1381 3112], who was minister of public security as well as chairman of the Beijing Municipal CPC Committee Standing Committee at that time, and Kang Sheng declared their positions repeatedly in support of arrest of the IMPRP. It was not until after the ninth party congress in 1969 that Mao censured the campaign for "getting out of bounds." He then transferred Teng Haiqing to the military region in Jinan, and in the process of purifying the ranks, he "found a scapegoat: writer Ulan Bagan." In 1978, the IMPRP case was redressed. In 1979, Ulan Bagan was sentenced.

During the past 20 years, the Chinese Communists have mentioned the IMPRP case extremely rarely because they owe a very great debt to the Mongolian people, and

because they also know that the Mongols have not forgotten the tragic, large-scale butchery of the past.

Breach Between Mongols, Hans Seen

92CM0264B Hong Kong KAIFANG [OPEN MAGAZINE] in Chinese No 63, 18 Mar 92 pp 48-49

[Text] Although the IMPRP miscarriage of justice was redressed following the Great Cultural Revolution, the damage to the Mongolians was very great, and they no longer believe the Hans. Some of the relatives of those who died nourish a desire for revenge. Mao Zedong's ultra-leftist policies sowed evil consequences that will be difficult to eradicate.

Does China have fewer ethnic problems than the USSR? I cannot venture to say, but I want to write about what I do know for the information of readers of KAIFANG MAGAZINE. Before the beginning of the Cultural Revolution, I was assigned to special work in Hohhot in the Inner Mongolian Autonomous Region. From that time until I left to come to Hong Kong several years ago, I witnessed more than 20 years of the evolution of Mongol-Han relations.

Witness to the Cruel Struggle of the IMPRP Case

The Mongolians are a people of the grasslands. They are by nature an open, unassuming, and optimistic people. Before the Cultural Revolution, their relations with the Han people were rather good; at least I did not hear of any major problems. Inter-marriage between Mongols and Hans was also fairly common. Mongolian cadres could speak the Han language for the most part, but the herdsmen of the grasslands could not speak the Han language. Their educational level was fairly low.

With the advent of the Cultural Revolution, relations between the Mongols and the Hans were damaged, the greatest incident being the arrest of the IMPRP. At that time, I worked in rural areas of places like Ulan Hot in eastern Inner Mongolia. Sometime during the winter of 1968, the high tide of IMPRP arrests occurred. The streets were thronged with criticism and denunciation contingents carrying signs. The same thing occurred in rural villages and pastoral regions where loudspeakers were still blaring in the middle of the night, calling for the overthrow of the IMPRP! Until complete victory was won, they swore not to desist! The atmosphere was tense; people felt anxious; and no one understood.

In Hohhot, the campaign was most ferocious. All units held endless criticism and denunciation meetings. At first, the emphasis was on arresting non-Communist Party members of the IMPRP, but later IMPRP members within the Communist Party were arrested, and ultimately it was the turn of the people in the party who were responsible for leading the campaign to be struggled against. All of those struggled against were Mongols because, reportedly, the IMPRP was an anti-party "reactionary organization" run by the Mongols who wanted independence, and autonomy.

Good Friends Forced To Commit Suicide

I knew a female Mongolian cadre who was running a criticism and denunciation one day when suddenly a person sent by higher authority came to call her out for a while. She was immediately taken away. It was announced at the meeting that she had been "separated for investigation." Her husband was a member of the IMPRP. This female cadre had grown up on the grasslands. She came from an impoverished family, joined the Communist Party in her teens, and was completely devoted to it. She was somewhat naive. She was taken to a livestock pen where she was subjected to an around-the-clock interrogation using wearing down tactics. She was not allowed to eat, drink, or sleep, as the members of the special case unit took 8 hour turns interrogating her.

As a result of such tactics, many people who were unable to stand up to forced confessions made wild confessions that implicated others. Naturally, the campaign got out of bounds and ultimately implicated members of the Han nationality. Those who were married to a member of the IMPRP or who had close friends in the IMPRP were also branded IMPRP members. I had a close friend with whom I had studied in Beijing who had come to Inner Mongolia to work. Because her father had been branded a member of the IMPRP, she too became a target for attack. When she menstruated, she was not permitted to go to the toilet. She had to stand up to answer questions. She told me: "I considered killing myself several times, but I felt that to die would be senseless. I was determined to go on living." She did go on living, but before she was 30 years old her whole face was wrinkled and she suffered from constant lower back pain.

Mortal Hatred Against Teng Haiqing; Zhao Ziyang Elbowed Aside

Criticism and denunciation was ruthless at that time. The torture methods were even worse than those used under the Japanese devils. One was called "roasting over a stove" in which a person was forced down into a fire to roast and then was thrown out into the ice and snow to freeze. That was most unbearable.

The Inner Mongolian Military Region commander and chairman of the revolutionary committee, Teng Haiqing, was in charge of the campaign to arrest the IMPRP at that time. It was not until the summer of 1969, when I heard that the Central Committee had criticized the criticism campaign in Inner Mongolia for "getting out of bounds," that the seizure of the IMPRP stopped, and those who had been seized were released. Many of them had died, however. It was generally said that several tens of thousands died, and more were injured. Everyone hated Teng Haiqing. The Central Committee transferred him very quickly, You Taizhong [1429 1132 1813] replacing him as the primary person in charge. In 1971, Zhao Ziyang was also transferred to Inner Mongolia to become the fifth person in charge. He was in charge of agriculture and water conservancy, but he was elbowed

aside. No one paid any attention to him. Possibly, he also knew the turbulent feelings of the Mongols. He did not perform well, and in less than a year he returned to Guangdong.

Ulan Bagan and the Dare-To-Rebel Faction Become Scapegoats

Following the Lin Biao affair in 1971, everyone realized the IMPRP case had been an error. **The authorities said that it had been trumped up by Ulan Bagan.** Thus, he became a scapegoat. Many Mongols came forward to settle accounts with him, and he suffered many beatings. Ulan Bagan was a writer. At the time, he had been the deputy director of the regional CPC committee's propaganda department. **His younger brother, Baiyun [4101 0061],** was a fine person. He was in charge of foreign affairs in the Inner Mongolian region, and he was also branded a member of the IMPRP.

During 1977, the IMPRP incident was formally redressed with the arrest of a number of IMPRP activists—both Hans and Mongols. The most famous of them was Nashun Bayaner [6719 7311 1572 1750 1422], the leader of the dare-to-rebel faction, who was the gang of four's designated chief in Inner Mongolia, a man slightly more than 30 years old. He had been a teacher at a teacher's college. During the period when he was riding high, he was the leader of a Mongolian league, built himself a new five story house, lived a life of riches, and was physically towering. Not long after his arrest, however, he developed cirrhosis of the liver. Fearing complications, the prison released him for medical treatment, but he very quickly developed cancer of the liver and died. **Other persons arrested were Wang Jinbao [3769 6855 1405], Hao Guangde [6787 1639 1795], and Su Nite [5685 1441 3676],** the younger brother of Buhe [1580 6378]. Quite a few leaders of the dare-to-rebel faction were arrested.

Five Brothers Avenge Their Mother's Humiliation

A factual account that spread far and wide concerned the aftermath of the IMPRP case: When members of the IMPRP were arrested, the public took the opportunity to express its dissatisfaction with the Communist Party. The ones most frequently hated were personnel cadres because they made a profession out of causing trouble for people. The wife of the chairman of the autonomous region's people's committee office was a personnel department director of Mongol race. Criticized and denounced during the campaign, she refused to admit guilt. In an all-male criticism and denunciation meeting, she was stripped naked, and a chauffeur of Han race pinched her nipples and ears with a pliers, then poured pepper sauce into the wounds and broke her back on a rack. Not long afterward, she died. Her five sons were still small at that time, the oldest being approximately 10 years old. Several years later, these children were adults who found out about how their mother had been cruelly tortured to death, and that the assailant was still free outside the law. They wanted revenge.

One night the five brothers broke into the chauffeur's house, bound him to a post, and beat him severely with a board through which nails had been driven. As they beat him, they said: If we don't beat you to death, we'll wait until you are healed and then we'll come back to beat you again. When the chauffeur was sent to the hospital, he was covered with blood. Soon thereafter he became deranged, feared to go outside his home, and had nightmares. Later on he was transferred to another league to work. But the five brothers found him and beat him again. They told him that he would never rest in this life. **The five brothers dared do as they pleased. After beating him, they voluntarily reported the case to the Public Security Bureau, explaining the reason. The Public Security Bureau said: Get out. It doesn't matter. So long as you don't beat him to death, it's all right.**

Ulan Bagan's Dissolute Daughter

The bitter experiences of the daughters of two high-ranking cadres also merit mention. When the writer Ulan Bagan was arrested, his daughters were already adults who were well-known beauties in Hohhot. They had pretty faces, models' figures, and especially long legs. After losing their father, their mother was unable to control them. Both became fond of an easy-going life. They had no regular job, and they frequented high-class places with friends of the opposite sex, not returning home at night. Reportedly, one of them fell in love with a handsome and dashing military officer from Beijing with whom she had a liaison in broad daylight in a corner of the people's committee auditorium. Discovered by a high-ranking cadre of a group holding a meeting there, she was arrested for indecent behavior. Whether she has been released as yet, I do not know.

The daughter of the Hohhot Municipal Public Security Bureau director was yet another sort. She, too, was an unruly young woman of Mongolian race who fell in love with a Canadian youth who had come to Inner Mongolia to study the culture. Only 19 years old at the time, she was determined to marry this older foreigner, but met with firm opposition from her father. They decided to elope. The man first went to Beijing to await her. The young woman was watched by her younger sister. When she escaped through a window, her father issued an order to blockade the railroad station. The train was searched without her being found. No one suspected that she had hidden herself in a soft seat compartment in which she safely reached Beijing. However, she was unable to escape the design of fate. The two were arrested at a meeting in the Beijing Hotel.

The Canadian man was accused of being a married man who had enticed a young Chinese woman. However, little did anyone imagine that this person was truly in love. He immediately returned to Canada, where he divorced his wife. Then, in a twinkling, this lover became a member of her family and, taking the daughter of the Public Security Bureau director with him, crossed

the sea to Canada. Later on, this Public Security Bureau director's daughter became the wife of a foreign service officer.

Anger About Those Killed and Injured Difficult To Allay and Hatred Difficult to Dissipate

In recent years, Inner Mongolia has been under control of Buhe, the son of Ulanfu, and reportedly the persons in charge of the autonomous region's leagues and banners are mostly Mongolians as part of a conscious effort to ease racial strife. Nevertheless, although the IMPRP miscarriage of justice has long since been redressed, it has truly injured the Mongolian people greatly. One might say that even were Teng Haiqing put to death, the hatred of the people could not be allayed. People tell me that relations between Mongols and Hans have yet to be restored to the condition prior to the Cultural Revolution.

Mindless of the rights and wrongs of the Cultural Revolution, the mother-in-law of Nashun Bayaner, the head of the dare-to-rebel faction who so ferociously arrested and struggled with IMPRP members, frequently publicly curses: "The Hans are no good. This place belongs to the Mongolians. What are you Hans doing by coming here!" The anger of the families of those who were killed and of those who were injured is even more difficult to allay, and their hatred difficult to dissipate. Inter-marriage between Hans and Mongols has decreased; Mongols do not want to associate with Hans, and Hans do not dare associate with Mongols.

Eyewitness Relates 'Tragic Stories'

92CM0264C Hong Kong KAIFANG [OPEN
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[Text] Editor's Note: Even today, the Chinese Communists hide the truth about the shocking miscarriage of justice during the Cultural Revolution, the "IMPRP Case." Liu Zhen [0491 4176], a woman writer who inquired into the inside story during the Cultural Revolution, and who personally witnessed many of the tragic stories of persecuted families, also learned about the despicable and sad role that writer Ulan Bagan played in the miscarriage of justice. On the mainland, however, this is regarded as a forbidden zone that cannot be reported, but she has written this article for publication in this magazine. [end editor's note]

In 1973, Ulan Bagan Flees Pell-Mell to Beijing

During the Great Cultural Revolution, many Chinese authors died tragic deaths. Inner Mongolian author Ulan Bagan did not die, but his ultimate death was more frightful than that of others. His full length novel, *The Grasslands in Flame*, was a very popular best-seller in mainland China that was published by China Youth Press. He was also a valued customer of that publishing house for a long time. During the Cultural Revolution, he truly ignited a fire on the grasslands of Inner Mongolia that incinerated thousands of families.

In 1973, I was "liberated" from the black gang, but I still felt the atmosphere was so stifling that it was difficult to breathe, so, in the company of old painter Yin Shoushi [1438 4060 4258], I went to the Inner Mongolian border grasslands to take a look. Before setting out, I visited the Youth Press where an old friend told me that Ulan Bagan had come by in a pitiful condition. He did not bring so much as a single copper or a single grain ration coupon with him. They did not know how he had managed to find a space on the train to come to Beijing. All he was wearing was a tattered pair of shorts and an undershirt. His whole body, head, and face had been beaten black and blue. He looked entirely like an apparition. We gave him some clothes to wear, fed him all he could eat, and he rested for a few days. Several years have passed since the incident involving the arrest of IMPRP members, so who would dare beat an author so cruelly. What had happened to Ulan Bagan? It was not until Old Yin and I reached Jining and Hohhot that we found out what had happened.

Very quickly I found out about this shocking matter. When I was studying at Luyi in the northeast during 1951, two of my classmates were from the Inner Mongolian Military Region. When I went to visit them, I found that they had been tortured so much during the arrest of members of the IMPRP that they had committed suicide. My classmate at the Literature Training Institute, Ankeqinfu [1344 2688 2953 1133], had been arrested and put in prison. His wife went mad with worry and his children had no one to care for them. When he came out of prison, his wife's schizophrenia did not improve. Soon thereafter, she committed suicide, dumping the four children on her husband who had just come out of prison. Poet Chagan [2686 1626] was beaten so badly he had a cerebral concussion. The renowned Mongolian female songstress who had sung at the World Youth Festival was so cruelly injured that she never sang again.

A Scene of Crying at the Hohhot Movie Theater

I remember having seen a movie in the company of comrades from the literary and art world of Hohhot at that time. The movie was made in North Korea, and was entitled "The Unknown Hero." It praised a hero who cut out his own tongue in order not to divulge anything at all after having been cruelly tortured following his arrest. When the film was over and the lights went on, the entire audience was crying. They cried so much that not a person was able to stand up to leave the theater. The friend who was with me said: "When the members of the IMPRP were arrested, the tortures we suffered were even worse than the ones shown in that film. As soon as this film was shown, everyone remembered what happened in the past. See, they cried so much they could not get up. They will never forget it."

I heard a very great deal, and my heart was much heavier than when I arrived. I felt that things might be better in the countryside or on the grasslands, so I hurried there. When I reached the home of a herdsman not far from the

county seat, I saw three boys, who were not very big, tending the livestock and collecting dung. Not one of them was going to school. I asked them why. Their father told me at once with an angry face that all their teachers had been buried alive. The Hans had summoned the pupils to dig graves in which they buried their own teachers. The children ran home crying. Since that time, their parents had not permitted the children to go to school.

Whenever I went to another place, I had a sense of fleeing, as though the next place would not be this way. It might be better. When I reached a branch range of the Daqing Shan, a beautiful, scenic farming and livestock region half way up the mountain, I met a national female model worker named Wuyun Qiqige [3527 0061 0366 0366 2706] who had met various CPC Central Committee leaders including Chairman Mao and his wife, Jiang Qing, as well as Premier Zhou. This was a hard-working, plain, and kindhearted Mongolian maiden who was now 29 but had never married. This was because after her mother died, she could not bear to leave her lonely father. She was determined to find another old partner for her father before marrying herself. She was the incumbent party branch secretary of this semi-agricultural semi-pastoral mountain village. She put me up in the house in which the former party branch secretary lived. He had been burned alive 3 years earlier when members of the IMPRP were arrested (something that I found out later).

Wuyun Qiqige was an open and unassuming maiden who angrily told me about past events in a torrent of words. She said that when the killings first began during the arrest of IMPRP people, she rode a fast horse to report urgently to the leftist commander of the Inner Mongolian Military Region, Teng Haiqing, hoping that this old Red Army officer might stop the savagery from spreading. Teng Haiqing said that the campaign had just begun, and that not many people had been killed. His position became known at once all over Inner Mongolia, whereupon all military forces set to fighting on a large scale as though gasoline had been poured on a fire. Everywhere, I heard people say that 100,000 people had been killed.

Wuyun Qiqige told of how she had written a letter to Chairman Mao and Comrade Jiang Qing while crying, using figures to show how many of those killed had been poor low and middle herdsmen. Every Chinese Communist Party branch was branded an IMPRP party branch, and all sorts of tortures were used to force party members to say how they had become secret agents and spies for the Outer Mongolian Party, and what information they had sent, etc. But nothing of the kind had occurred. The party members could not admit anything; consequently many of them were beaten to death in the course of having confessions extorted from them.

Party Branch Secretary Dies Wailing After Eyeballs Roasted

She told me about how the widows of 17 persecuted people had gone to Beijing to lodge complaints after the events. Along the way, nearly 100 young vigorous lads stripped to the waist, pinned a large expanse of glistening Chairman Mao buttons to their flesh. The buttons hanging from their chests, they traveled together on horseback day and night, racing to Beijing to lodge complaints. They supposed that all they had to do was pin the Mao buttons to their flesh and use their own blood to show how loyal the Mongol people were to the Communist Party and to Chairman Mao as a way of showing the injustices done them. But they were too naive.

Wuyun Qiqige was like all the people I saw after I came to Inner Mongolia. After saying this, there is nothing more to say. The house in which she allowed me to stay was occupied only by one widow who was approximately 40 years old and two girls—the older one 7 and the younger one 5. This mother's face was sallow. Because of pain and inability to sleep from suffering, her eyes were sunken into black holes, and her whole body was nothing but flesh and bones. Her husband, a Chinese Communist branch secretary, had his head pushed down over a blazing wood fire till his eyeballs were roasted. Then he was thrown back into his home, where he wailed for 3 days and 3 nights before dying.

Ulan Bagan Informs Against the IMPRP to Teng Haiqing

I slept on a large *kang* with this family of three. The suffering wife did not sleep all night long. She told me that she no longer had any tears, only sobs. She could only talk about who would feed the three members of the family that had survived. There was no need for her to say anything more.

Spirit had gone out of the lives of these three tragic yet fortunate survivors, causing me with a difficult to forget stabbing pain from those days. It was to this sparsely settled farming and pastoral village that Ulan Bagan was sent to labor, but he was not usually here. He constantly claimed that Yao Wenyuan wanted him to go to Beijing to talk, and that Comrade Jiang Qing wanted to see him. On these pretexts, he returned home to Hohhot. It was he who had made the accusation to Teng Haiqing that the entire Communist Party of Inner Mongolia was not a Communist Party but the Inner Mongolian People's Revolutionary Party, and that it was in league with Outer Mongolia with the goals of becoming independent, making Inner and Outer Mongolia one, and reviving the ancient domain of the Mongols.

At an urgent juncture in his support for the left, Teng Haiqing naturally paid serious attention to Ulan Bagan's accusations. He immediately set up a leadership team with the task of capturing the members of the IMPRP. Ulan Bagan was the main leader of the team. He began by cruelly torturing and investigating people in the

literary and arts world in the Inner Mongolian Autonomous Region. Soon, the ripples spread to every corner of the autonomous region. PLA supporters of the left were sent everywhere, and the young people, Han cadres, and teachers camped in Beijing and some inland cities became the primary contingent in this massacre of other nationalities. Mongols under torture implicated some Hans, and some even implicated Ulan Bagan as a leader of the IMPRP.

Accounts of the extremely tragic and cruel tortures that occurred during this towering forest fire can never be exhausted. Just as in the seizure of the New Kuomintang that began during the same period at Qiuxian in Hebei Province, the lives of countless innocent people came to an end through recitation of the quotation that "A revolution is not an invitation to dinner.... it is rebellion." The men who died at Qiuxian had their eyes gouged out and their tongues cut off, and their reproductive organs were cut off as well (for fear that they might have posterity). The arrest of the IMPRP people was a revolution like this.

Ulan Bagan Dropped Into a Great Sea of Rage

In 1971, after the field army took over military control from the Inner Mongolian Military Region, **Teng Haiqing was transferred to the Jinan Military Region as deputy commander.** His leadership team for the arrest of the IMPRP was disbanded, and Ulan Bagan was sent to labor reform at the place where Wuyun Qiqige lived. In time people came to know the role that Ulan Bagan had played, but Wuyun Qiqige had to do all possible to influence people. She said that no one person could be blamed for everything, and she demanded that no one seek revenge or beat him to death.

Ulan Bagan could not stand the loneliness. He fabricated all sorts of falsehoods to shift the blame to others, but after returning to the grasslands, he fell into a fiery sea of rage. People lay in wait for him, and herdsman from all over came on fast horses in search of him. Some kicked while others beat; others held him fast. He was not beaten to death, but his whole body was left bruised. "Traitor to the Mongols, conspirator, vicious scoundrel"—they cursed him as they beat him. Only such an object of wrath would be so powerless before others. The police paid no heed to what they saw, themselves secretly relieving their hatred. Ultimately, everything comes to an end. Ulan Bagan had no place to hide; he had no choice but to go to jail to be protected. He did not die, but what is a fate worse than death?

By pouring oil on the raging fire of the Great Cultural Revolution in an effort to garner some profit, he burned up his own soul, and he also destroyed his own literary life. Of all the Chinese mainland writers, the one that stands out most in terms of the Cultural Revolution is Ulan Bagan. Another is the woman author, **Cao Ming. Because she informed against him, Mr. Lao She was forced to commit suicide.** Cao Ming attended the Literary and Arts Forum at Yanan where she heard Chairman

Mao's speech in person. The large photograph that will forever have souvenir value shows her there. Naturally, she wanted to bring about a revolution in everyone else's life.

The 84-Year-Old Grandmother's Denunciation

Mr. Yin Shoushi went to a horse farm to learn first hand about the life of horses and to draw some horses. I also went with him to the grasslands west of Erlian City, and to a small hill on the frontier, where a commune and a township government were located. It was August 1973 and the 10th CPC Party Congress was in session in Beijing. Two days after it closed, a Mongolian cadre from the commune, waving a copy of the NEIMENG RIBAO [INNER MONGOLIAN DAILY NEWS], came running and shouting: "Teng Haiqing was not elected! He is not a Central Committee member!" This happiness made people sad. I looked up at the blue sky and wept. What pitiful comfort this was for a people who had suffered so greatly. Although it was on the very leading edge of coastal defense, the place was not tranquil. A Mongolian township cadre was shouting loudly: "All the Hans are bandits!" The sound filled me with apprehension. It made me feel guilty about being a Han.

In the "second line sentry post" on the small hill, a militia platoon leader and two young men posted from inland stood guard. Beneath the slope on the northwest side lay a neutral zone and Outer Mongolia. This was no second line; it was the very leading edge. Here were fortifications, trenches, and three room Han-style dwellings. At the top of the hill outside lay a small compound where I stayed for 3 days. As elsewhere on the grasslands, the only fuel available for cooking or boiling milk tea was dried cow dung.

Around dusk one day, the grandmother of a 19-year-old militia platoon leader talked and gesticulated to me as she collected dried dung. The tragic events that had happened to her family and various circumstances, I already knew. This old person was 84 years old and moved with effort. It was difficult for her to talk, but she still wanted to speak. She spoke of how her daughter had been hung up and beaten during the arrest of the IMPRP. She demonstrated various kinds of torture. Finally, unable to bear it, her daughter committed suicide by covering her head with her skirt and jumping into a well. Her husband was also dragged off somewhere where he was beaten to death. Their small daughter was only 1 year old; they had a small son 4 years old; and their older son was 15 years old. He was the one who was the militia platoon leader now. **The old woman pointed off in the distance toward the east and said that when her granddaughter had been given to someone, she went in that direction and, like her parents, she never returned. The hand that she used to point off toward the distance did not drop for a long time. It was like a fossil.**

It was getting dark. I hurried to help her collect the dung, wanting to cry but being unable to cry. I just felt I had lost the capacity to cry in pain for people. I was a Chinese

Communist Party member, a member of the Han race, and a born criminal who should be hacked to death who was facing a tragic case that existed everywhere. If I did not think this way and did not hate this way, how else could I think? Off in the distance in the neutral zone were camels and horses without owners. Their easy-going, carefree manner made my heart feel heavier.

Little Brothers on the Grassland Mercilessly Capture Escapees

Border defense in Inner Mongolia has always been frightening and tense. Border incidents have occurred there from time to time. At Christmas time in 1972, a Soviet truck delivered bread and canned goods to the Soviet troops garrisoning the area opposite. During a big snow storm in the middle of the night, the truck became lost and drove up to one of our sentry posts where it stopped to ask the way. Our border defense troops suddenly opened fire, countless bullets striking the truck's tires. The driver and the Russian company commander, a captain who was escorting the food shipment, were sent to Beijing for the purpose of having higher authority take note of a meritorious deed and to obtain a reward.

The Outer Mongolian frontier, which is guarded by Mongolian and Soviet armed forces, exchanges fire with our forces, and it is ready at all times to open fire and do battle.

News about escapes is also heard from time to time. A platoon leader from the Border Defense General Headquarters in Jining City escaped to become a commander on the other side. The deputy army commander of the 38th Army stationed in Hebei Province confessed his intention to kill the army commander and political commissar, whom he did not kill. He did kill the wife of the army commander and a security guard. Wanted posters bearing his photograph were hung everywhere, and every jurisdiction was anxious to capture him. Later on it was found that he had not run all that far. In a cornfield several miles away from the encampment, he had committed suicide with a pistol.

All of the escapees captured on the grassland at that time were shot to death. In this country, one cannot live, nor is he allowed to escape. A 15-year-old herdsman youth told me about how he and his younger brother deceived a 16-year-old escapee and his father into entering a Mongolian yurt where they captured them and turned them over to the authorities. The young escapee's paternal aunt and paternal uncle were engineers in the Donbas mining district of the USSR. He and his father wanted to defect there. In speaking about the execution of this father and son, the young Mongol lad's face glowed with pride. He had earned merit, and was a young hero throughout the autonomous region. The killing of people arrested as members of the IMPRP everywhere may not be a matter of deep importance for the young men who herd horses. One such is the 19-year-old militia platoon leader whose family was

destroyed and its members killed, but who remains unswervingly loyal in defending the border, and who would not hesitate to kill an escapee.

Lamaism Devastated and Practically Wiped Out

The Mongols are pious and good Buddhists. At that time, most males above the age of 40 were lamas, and there were numerous ancient temples. An area 200 li east of Erlian had the large number of temples called the Wuhaobao Grand Temple dating back 2,000 years. Here there were 500 male lamas and 300 female lamas. It was a sacred site to which people from both Inner and Outer Mongolia came to revere the Buddha. When the Red Guards rebelled, it took seven trucks to haul away the rugs alone. Countless treasures that people had given as tribute for many years were looted, and the lamas were forced to return to secular life becoming herdsmen. The leaders were sent to labor reform, and the young monks escaped to Outer Mongolia.

I remember seeing *sutras* littering a temple floor like fallen leaves 2 chi thick at that time. Some people were tearing down the temple to steal the wood. The only people who came here were young men and military forces posted in Inner Mongolia from inland China; Mongols no longer came to look. In the westernmost temple courtyard, a border defense company headquarters camped. This was also called a second line sentry post. The whole place was a scene of dilapidated terror. In 1972, a Han soldier who was about to enter the party committed suicide in a small temple room. The words he left on the wall read: "I am guilty. I am leaving my comrades forever. Long Live Chairman Mao!" I lived with this company headquarters for 7 days during which the soldiers told me numerous terrifying stories about these empty temples, all of which occurred at night. Some were stories about people; others were stories about spirits. On the vast and beautiful grasslands, and on the border defense line hill, there was no place without terror at that time. Once I went into the neutral zone with a group of primary school students to cut grass. Everyone mistook a border defense soldier riding toward us on horseback for a Soviet soldier. They downed their scythes and fled pell-mell. One 9-year-old Mongol girl pupil ran till she died. They were afraid that they would be taken captive by either Outer Mongolian or Soviet troops and then released. After release, they would be regarded as turncoats and spies. They would not be able to avoid being severely tortured.

The IMPRP Had Long Since Ceased to Exist

After returning to Hohhot, I sat in the archives reviewing data for 7 days. I wanted to understand just what the IMPRP was historically. When the Japanese invading army occupied China's three northeastern provinces in 1931, some Mongolian intellectuals, including ranking noblemen, established the IMPRP to resist Japan. Around the time of the Marco Polo Bridge Incident, the members of this party either returned to the Kuomintang or went over to the Communist Party. The IMPRP

existed no longer. Nevertheless during the mad campaigns of the Cultural Revolution, the IMPRP became the pretext for snuffing out the life of more than 100,000 people.

During that catastrophe that destroyed everything, to say one word or to raise one's hand might be regarded as a violent act against the group, not to mention the likes of

Ulan Bagan who planned to gain from events. He is another kind of model that history should remember well as most despicable and most tragic. He was not Chairman Mao who could get away with making mistakes. He was only a writer whom no one would pity were the public to hack him to death, nor would a jot of hatred be relieved thereby.

Editorial on Investment, Economic Breakthrough
92CE0458C Taipei CHING-CHI JIH-PAO in Chinese
1 May 92 p 2

[Editorial: "We should Stimulate Investment To Break Out of Our Current Economic Difficulties"]

[Text] In a report on current economic conditions the other day to the Executive Yuan Finance and Economics Commission, Shirley Kuo, chairman of the Economic Planning and Development Council, pointed out that as savings deposits have remained higher than investments in recent years, which has resulted in the accumulation of a huge amount of excess savings, not dealing with the situation properly might very well cause inflation. Her report further analyzed the situation as follows: Although we have maintained a high savings rate over the last two decades, we also had a high investment rate in the 1970's, so that all savings could be used for domestic investment and transformed into productive forces, while our investment rate in the 1980's remained sharply lower than our savings rate, which left savings unable to be used for investment and made a large-scale improvement of our productive forces impossible. In particular, the savings not used for investment in 1986 accounted for as much as 21.4 percent of our GDP, with excess savings amounting to as much as \$624.5 billion NT. By 1991, while this ratio had dropped to 7.4 percent, excess savings still amounted to \$362.6 billion NT. Thus, Chairman Kuo emphasized that we must "use excess private savings for national construction, in order to ease price pressures." The president of the Executive Yuan, Premier Hao Po-tsun, immediately instructed concerned units, such as the Ministry of Economic Affairs, to propose directions and principles for stimulating private investment, to effectively use excess social savings and ease inflation pressures.

While we agree that domestic investment is inadequate, so that our domestic resources are obviously not being used effectively, which is creating inflationary pressures, we would also like to take the opportunity to further point out the following effects of our current inadequate investment, which are even worse:

1. "Investment" is the engine that drives economic development. In the short term, inadequate investment affects the current year's economic growth, slows increased imports, and creates a huge trade surplus which, in addition to affecting future price stability, is an even greater factor in arousing trade friction and NT appreciation pressures. In the long term, the huge trade surpluses created by inadequate investment are a sign of the flow abroad of valuable domestic resources, which blocks overall economic progress and affects the further improvement of our future productive forces and competitive ability. Thus, the severity of this problem should not be neglected by either the government or the private sector;

2. While the "current inadequate investment" refers generally to our ratio of fixed assets investment to GNP

being lower than in the past, and our investment rate being lower than our current savings rate, our investment has actually increased by more than 10 percent a year in the last three years, while our investment rate has remained between 21 percent and 22 percent, and is not falling further. Meanwhile, the fixed assets investment of our manufacturing industry has almost stopped in the last three years, with our gross value of industrial output [GVIO] being not only far lower than in the 1970's, but also continuing to fall. If this trend is not halted, there is a danger that our domestic industry will be emptied out, which would be of great harm to our future overall economy. We must pay particular attention to finding ways to resolve this;

3. While Chairman Kuo's pointing out that our ratio of excess savings to GDP had dropped from 21.4 percent in 1986 to 7.4 percent by 1991 should be seen as a heartening phenomenon, the major factor in this was that our savings rate during the same period of time dropped 8.5 points from 38.4 percent to 29.9 percent. Inadequate investment has obviously led to the accumulation of a huge amount of excess savings, touched off money games, and stimulated increased consumption. In the last five years, not only has private consumption increased more than incomes, but government consumption has increased even faster. This has sharply lowered the savings rate, to less than 30 percent in the last two years in particular, which has occurred rarely in the last two decades. The sharp drop in Taiwan's savings rate, making it lower not only than that in Japan, which is more advanced than us, but even lower than that of our competitors in Singapore and South Korea, shows that while our individual income is only one-third that of advanced industrialized countries, we have become infected with the virus of consumerism, and are moving toward a structure of "high consumption with low savings and investment." We had better see this as a signal of extreme danger. A Chinese proverb says that "it is easy to move from thrift to extravagance, but hard to go from luxury back to frugality." Just as the government is taking active steps to push ahead with national construction, so needs a lot of cash input for public capital construction projects, to make up its past lack of investment, and to lay the foundation for turning Taiwan into a modernized country, it is suffering from a lack of funding sources. If our savings rate continues to fall, this will further increase the government's fundraising and investment difficulties, which not only will have an adverse impact on the implementation of the National Construction Plan, but also will keep Taiwan from reaching our goal of becoming a modernized country before the end of the 20th century. This makes it even more important that we do not ignore the trend of a falling savings rate.

Based on this analysis, in addition to supporting the government's need to guide excess private savings into investment in public capital construction projects, we are recommending that the government take effective steps to curb the falling savings rate and put it back over

30 percent, along with asserting its public authority by continuing to maintain political and social stability, and taking more active steps to improve the investment climate. Moreover, we are calling on the Taiwanese business world to stop its overemphasis on foreign investment, particularly that on investment in a lateral division of labor, to keep from creating too much future competition pressure on Taiwanese products. Rather, it should concentrate on a vertical division of labor, by investing more in domestic mid- and up-stream industries and remaining rooted in Taiwan, in order to maintain our overseas competitive advantage. We believe there are good prospects that joint efforts by the government and private enterprise should be able to stimulate investment, help us break out of our current economic difficulties, and pave the way for further economic development in the future.

Editorial on 301 Priority Watch List

92CE0458D Taipei CHING-CHI JIH-PAO in Chinese
2 May 92 p 2

[Editorial: "Taiwan Should Act Like a Country With High Aspirations"]

[Text] The U.S. placement of Taiwan on its 301 priority watch list, along with countries such as India and Thailand, has aroused a very strong domestic response. Many scholars, experts, and government officials have proposed various ways to deal with this problem, by copiously quoting authoritative works and making penetrating analyses, which could not help but arouse thoughts and feelings. With so many fine methods having been devised completely in such a short period of time, the question is: What are our responsible officials actually doing about it? Is the problem that they are not smart enough, or is it lax enforcement? While we do not wish to offer a sincere but unworthy present like a savage, or to propose even more supplemental ways to deal with this problem, we would like to probe a little into its actual implications.

For a less advanced country to imitate, by introducing production methods, management concepts, and even product patterns of advanced countries to its production and marketing system in order to shrink its gap with advanced countries more quickly; or to inculcate its scholars, specialists, and large numbers of students with professional knowledge developed by advanced countries, through translations, briefs, or even outright reprints, in order to quickly and effectively improve professional skills and train specialists, is a valuable shortcut that can be taken to develop potential and try to catch up with advanced countries. As there is no denying the fact that our economy has grown by leaps and bounds and our technological level far exceeds what it was 30 or 40 years ago, many of us must have profited from such imitation. In fact, as even advanced countries, such as Japan, are still more or less using such techniques to foster competitive qualifications, the only difference

being that their methods are more in line with international standards, the ingenious results that they are achieving are causing us to look at them with increased respect.

In light of our current standing, which is still far from that of Japan's, in that our interests rely far more on advanced countries, we must absolutely not brag shamelessly that we will never again use such techniques to improve our technical capabilities. But as our standing has long since stopped being like that of a masked bandit of yore, who could unscrupulously engage in out-and-out tricks, such as counterfeiting and plagiarism, we must act legally and according to internationally approved standards. While the judgment of our violations of law and discipline that we have most often heard for many years is that our citizens are too lawless, disposed to flout law and discipline, and specially keen on certain shady deals, such a simplistic judgment certainly seems to be unable to pass the test of reality. There are quite a few examples at my fingertips. For instance, when the responsible traffic authorities recently launched a drive for better compliance with traffic laws without even taking any particular enforcement actions, we almost immediately saw most car drivers begin to follow the rules and stop daring to lightly overstep the bounds by even an inch. Moreover, when the Ministry of Transportation decided in early March to strictly ban overloaded sand and gravel trucks, the previously overloaded trucks lost their illegal weight in just a matter of days, so that the sand and gravel supply immediately dropped sharply. Our citizens are certainly as law-abiding as those in other countries. The problem is simply not knowing which laws to observe and, instead of seeing law-breakers being penalized, watching them time after time gain all of the advantages. With such a system and such enforcement, the vast majority of our citizens still choose to be law-abiding fools. I do not know of any more law-abiding citizens in the world.

In fact, the reason why we are one of the most blacklisted countries is that what we call nothing but a large number of counterfeit copyrighted laser discs, not only are peddled wantonly in Taiwan, but also are dumped on a large scale on foreign markets. In addition, our large number of MTV karaoke parlors use large amounts of foreign materials illegally, mostly U.S. movie discs as a means of profitmaking. And our information business also plagiarizes large amounts of foreign materials, also mainly U.S. computer software, not only for domestic use, but also in collusion with Hong Kong and Mainland counterfeiters to invade international markets in an enterprising way. Leaving this last type of activity aside for the moment, the first two types require no specialized knowledge. Everyone knows that they are illegal and unethical, and that those who engage in such shady deals are trying simply to gain the most profit at the least cost, and are making almost no contribution to our society. This absolutely cannot be spoken of in the same breath with the abovementioned copying of imported technology to improve industrial capability. In particular, the absolute

majority of MTV's so-called Taiwan-originated karaoke parlors, which have been breeding and multiplying for who knows how long now, are basically illegally run businesses. Having winked at their spread to such a point, which has even allowed us to become one of the major offenders on the priority watch list, I really do not know where else we could start but to go on endlessly blaming our citizens for being lawless.

In addition to our overall executive and judicial institutions certainly still not showing genuine respect for law by law, lacking the will to enforce the law, and not having the proper enforcement capability, it should be pointed out that our legislature is the major culprit that has landed Taiwan in such a lawless plight, stood by and watched Taiwan's interests become so severely threatened, and caused all of our citizens to be so humiliated. Our most basic law guaranteeing intellectual property rights, the revised draft of our copyright law, has been under discussion in the Legislative Yuan for a year and a half, but has still not been passed. This has left our citizens with no law to follow and our country with no way to suitably deal with the many violations of intellectual property rights, and made it impossible for us to establish the concept of respect for intellectual property rights.

Faced with retaliation by the special 301 clause, once our copyright law amendment is immediately put on the top of the agenda for examination and approval, the law-enforcement agencies responsible for banning counterfeit laser discs can begin to operate vigorously and speedily, the illegal MTV activities will be certain to be suppressed severely, and even the most vicious computer software piracy will be curbed somewhat. U.S. officials seem to be even more familiar with our political climate than we are. Moreover, if such a threat-action process continues to occur, we will actually be inviting them to keep on threatening us, in order to spur us on to do what we should have done in the first place.

While Premier Hao Po-ts'un said it very well, that Taiwan should act like a country with high aspirations, what we need above all is a government and a legislative body with high aspirations.

Editorial on Bank Competition

92CE0458E Taipei CHING-CHI JIH-PAO in Chinese
3 May 92 p 2

[Editorial: "The Coming of the Age of Bank Competition"]

[Text] Since the opening of the 15 new commercial banks in Taiwan, the Ministry of Finance (MOF) approved on 1 May 1991 the establishment of the Ant'ai Bank, which was the only one that applied and whose establishment was approved in the second wave of actions taken to lift banking restrictions. When MOF published the first list of new banks in June 1991, only four of the 19 applicants were not approved, while the number of new bank

applicants has sharply decreased just one year later, which shows that the golden age of banks, just like that of goldmines, is already over.

Meanwhile, since the 15 new banks opened at the end of 1991, their trend of large growth of savings and loans in their initial establishment period seems to have slowed. Once the novelty of their honeymoon period gradually paled, the new banks have been forced to weed through the old to bring forth the new, compete for customers with innovative methods, financial products, and services, and appropriately handle relations with both old and new banks in the same line. From this perspective, MOF's approval of the establishment of a second group of new banks signals the beginning of an age of true bank competition in Taiwan.

Since the new banks have been open for six months, they have certainly brought a new atmosphere to the lethargic banking industry, the benefits of which have begun to be felt by large numbers of bank customers. First, as to service, most of the new banks have emphasized better service, from counter arrangement and business office decoration to internal operating procedures, with all emphasizing the supremacy of the customer. Their attendants are certainly more friendly and capable than the former bank employees who held secure jobs in public institutions. Second, most of the new banks have emphasized service to small- and medium-sized enterprises and ordinary consumers, as well as practicing active and enterprising credit policies, which have undoubtedly brought them many loan applicants who public banks had declined to serve. In addition, the price war that the new banks launched when they first opened, gave many ordinary savings customers more freedom of choice besides higher interest rates. Even from the perspective of bank employees, the establishment of the new banks provided new space for many ambitious bank employees who did not wish to be subject to bureaucratically run institutions. This new personnel mobility stimulated the whole banking world to pay more attention to cultivating talent and rationalizing management systems.

However, the innovative style of these new banks has also brought fresh challenges and problems.

First, the new banks are too similar in nature, and their distinguishing features are not yet clear. Most of the new banks have brand new and well-lit places of business and polite and considerate attendants, emphasize service to small and mid-size enterprises and the public, are roughly made up of certain financial groups, and have key managers who were assembled or lured away from public bank reserves. But except for these common features, it is certainly not very clear what distinguishing features or differences they have.

With such a makeup and operating focus, six months of operation has brought certain short-term phenomena to the new banks. Some of the loans they have made were arranged in their planning and establishment stage, or were lured away from existing banks. In addition, the

new banks had sharply increased credit surpluses when they first opened because of the excitement surrounding their opening. And it was the same with their savings business, in that almost all of them had nominally increased savings at least at first, due to face-saving campaigns and widespread solicitation of customers through the offering of high interest rates.

But time was bound to bring out the truth about these false appearances. After a few months sprint, the loans of these new banks have already decreased to about \$100 billion NT. In addition, the financial authorities' restrictions on their capital credit have forced the new banks to find other ways to attract savings, in order to make business breakthroughs. Moreover, each new bank is allowed to open only seven branches during its first year of operation, while the three provincial commercial banks each have at least 150 branches. It will certainly be a great challenge for the new banks to find ways to increase future savings so that they will have plenty of loanable funds.

The business competition brought by the entry of these new banks into the market has also generally decreased banking profits. This can be seen most conspicuously in that the spread between savings and loan interest rates has dropped from its high of 5 percent in 1988 to 2-2.5 percent at present.

This great change in the banking climate in the last six months has quietly brought the age of competition to the banking profession. It can be predicted that the new banks will certainly bring all of their skill into play to compete wholeheartedly for customers among the common people, while the existing public banks will try

to hang onto their advantage, by sparing no effort to preserve their market share. The new age will have to have a new order. The key role of the financial authorities in this new order should be to ensure a climate of fair banking competition, by setting appropriate norms for possibly unscrupulous competition, in order to prevent its future proliferation.

We have gladly watched certain intended or inadvertent actions by the financial authorities in this area. At a meeting with officials of the 15 new banks on 29 April 1992, Samuel Shieh, governor of the Central Bank of China, proclaimed that "banking is a fine profession" that diligently serves as a model of ethics. Moreover, the financial audit of 30 Taiwan banks, which was begun in March by the financial authorities, has been completed. Its findings on issues, such as the orientation of loan funds and the flow of funds between banks and related enterprises, are of particular interest to all parties. As was laid out in a CHING-CHI JIH-PAO editorial on 30 April 1992, these findings should be made public, so that they can serve as an important reference for future monetary policy.

We would like to specially call to the attention of the officers of the new banks that, as banking is an ongoing business of vital and lasting importance, where good faith is the very lifeblood, they must absolutely not blacken the name of such a public institution out of shortsighted private interest. Taking active steps to gain public trust and confidence through honest operations, not only will help these new banks to win more quickly from the financial authorities the right to expand their operations, but will also be a basic strategy for their expansion and survival in the age of bank competition.

Government Asks Paper for News of 'Orphan Trade'

HK1705042392 Hong Kong SOUTH CHINA SUNDAY MORNING POST in English 17 May 92 p 1

[By Peter Woolrich and Geoffrey Crothall]

[Text] The Chinese Government has requested details of a SUNDAY MORNING POST investigation into an orphans-for-sale racket across the border.

Hong Kong-based businessmen are charging childless couples up to U.S.\$15,000 (\$117,000) in "arrangement" fees to act as middlemen.

Some babies are taken directly from their parents and documents are then falsified claiming they are genuine orphans.

Chinese law states that an orphan is a child whose parents are dead or unknown, and forbids infants with known parents from being taken out of the country.

Conditions in many of China's orphanages are appalling and many children die because of a lack of care and attention.

The Standing Committee of the National People's Congress introduced legislation on December 29 last year making the orphan trade illegal.

But SUNDAY MORNING POST reporters posing as a childless married couple were offered a four-month-old baby girl called Mei Mei, whose parents are both alive, by Hong Kong-based businessman Mr Frank Liu.

He told us he was able to "take care" of the necessary documentation because he had an "arrangement" with the director of an orphanage in the coastal town of Fuzhou.

Mr Liu, who boasted of being a millionaire business contact of Chinese patriarch Mr Deng Xiaoping's son, also claimed he took senior Communist Party officials

and the provincial commissioner of the Public Security Bureau on all-expenses-paid trips to Disneyland in the U.S.

"It's all public relations and means I can do what I want," he said.

The Ministry of Justice in Beijing, the agency responsible for foreign adoptions, has asked the SUNDAY MORNING POST for our dossier of information on the scandal.

China appears to be doing its best to control the baby trade, but with so many corrupt officials working in its ministries and offices, it is almost an impossible task.

The Ministry of Justice confirmed it was aware of middlemen making a profit out of selling orphans in southern China, but said it was not aware of Mr Liu's activities.

Spokeswoman Ms Liu Nanzheng said: "This is certainly not a good phenomenon. The law prohibits people making money by acting as middlemen for adoptions.

"If such cases are uncovered, they will be investigated and the perpetrators will be punished accordingly.

"We would very much like to have your information so that we can investigate this."

Ms Liu said that until the new law became fully effective, prospective parents had to formally apply directly to the ministry in Beijing.

The director of the Fuzhou orphanage, Mr Zhang Ting, said he was not responsible for what the middlemen did.

"Anything we do absolutely abides by the laws of our country," he claimed.

"We'd like to advise people not to deal with those middlemen or else they'll be cheated.

"They should come to us directly if they want to adopt an orphan. We don't charge them anything apart from some small administrative fees."

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